



African Bank Holdings Limited

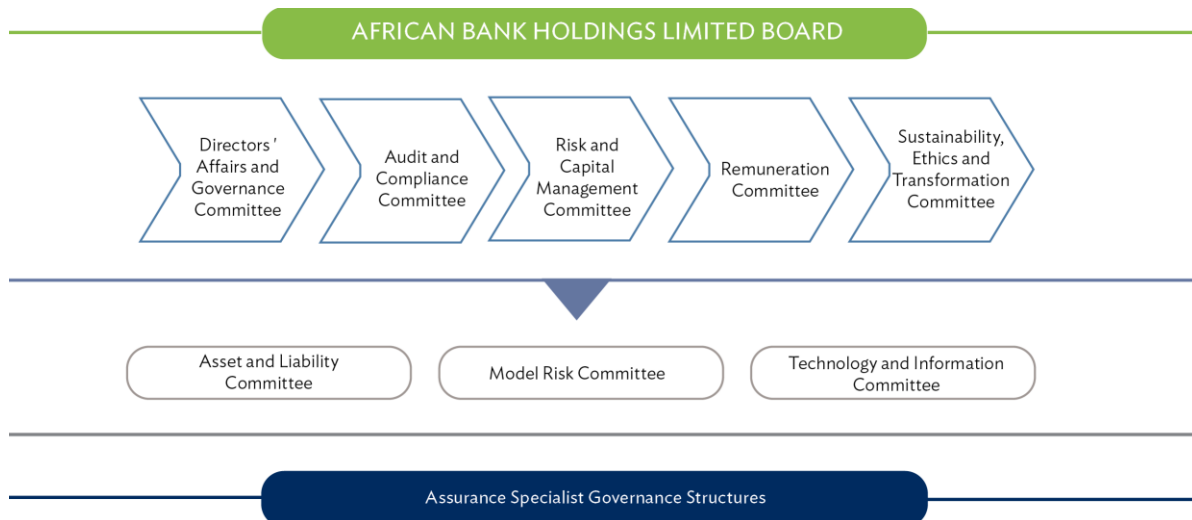


Governance report 2019

Supporting governance information in respect of the 2019 Annual Integrated Report

Corporate governance review

GROUP GOVERNANCE STRUCTURE



The Board is accountable to all its stakeholders for achieving the continued growth and sustainability of African Bank Holdings (referred to as the Group), without compromising social, environmental and other economic issues.

The Group's purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. The Board is committed to ensuring that it maintains adequate and effective governance processes that:

- Are consistent with the nature, complexity and risk inherent in the Group's business activities.
- Respond to changes in the environment in which the Group operates.

Governance approach

The Board is the custodian of the Group's corporate governance. It provides effective leadership based on our values of transparency, creativity, collaboration, empathy and sustainability, and the moral duties that find expression in the concept of 'Ubuntu'. The Board ensures that the Group will operate as a responsible corporate citizen, based on the responsibilities imposed on it by relevant legislation, governance principles and the South African Constitution. It also recognises that sound corporate governance and ethical business practice is the foundation upon which the trust of all stakeholders is built.

The Group has adopted a Governance Framework, which is revised at least annually and updated as required, the last update being in February 2019. The overall intention of the Group's Governance Framework is to provide an effective corporate governance structure that will help to achieve strategic and business objectives efficiently, ethically and equitably, within acceptable risk parameters.

Application of King IV™ and governance principles

In 2018, the Group commissioned an external organisation to review its overall compliance with the ethical principles of King IV™ and a report was subsequently published on our website.

In 2019 we undertook a full analysis of the implementation of the recommended practices in King IV™, which revealed that we have applied the recommended practices, explained our arrangements on our website and made the related disclosures in this report. Our report on the application and disclosure of the King IV™ principles is available on our website at www.africanbank.co.za

The role of the Board

The Board is duly mandated in terms of its Board Charter, which includes details on the roles and responsibilities of the Board, its composition, governance of meetings and the conduct of its Directors.

The Board has established various Committees, as described in the governance structure, to assist it in fulfilling its duties. These Committees derive their authority from their respective Terms of Reference (TOR), which include details on their purpose, composition and responsibilities. The Board Charter and Committees' TORs are reviewed annually to ensure that they remain in line with best corporate governance principles. The Charter and TORs are available on request from the Group Company Secretary.

How the Board adds value

The Board adds value to the Group in the following ways:

- Assumes ultimate accountability for the performance and affairs of the Group and addresses all related matters in this regard at its quarterly meetings.
- Considers and approves the long-term strategy and vision for the Group, as developed by the Chief Executive Officer (CEO) and Executive Committee (Exco). The latest business strategy, approved during 2018, was reaffirmed in April 2019.
- Oversees the implementation of the approved Group Governance Framework and other policies and frameworks approved by Board and Committees, from time to time.
- Ensures that it exercises ethical and effective leadership and judgement based on integrity, competency, transparency, fairness and accountability.
- Considers its social responsibilities without compromising the natural environment (Refer to pg 102 in 'The sustainable use of our natural resources' section of the Annual Integrated Report at www.africanbank.co.za).
- Reviews and approves various matters in the current year, such as major plans of action, Group strategy, appropriate procurement and provisioning systems, risk management matters, various internal controls, Interim and Annual Financial Statements, budgets and business plans.
- Reviews and approves procedures to monitor and evaluate the implementation of the Group's values, purpose, strategies, policies, risk management, culture, compliance with laws, and its business and operational performance.
- Reviews and approves the Group's Annual Integrated Report so that the report enables stakeholders to make informed assessments of the Group's performance and its short, medium and long-term prospects.
- Acts in the best interests of the Group and ensures that individual Directors adhere to the Code of Conduct, as embedded in its Board Charter.

The Chairman of the Board

The Board appointed the Chairman, Thabo Dloti, following the requisite regulatory processes and the Board approved Selection and Nominations Policy. The Chairman of the Board is responsible for setting the ethical tone for the Board and the Group, together with the other Directors. The Chairman provides overall leadership in the conduct of the Group's business and affairs.

Thabo Dloti, who was appointed as the Chairman in March 2019, is an Independent Non-Executive Director. The Board took the decision not to appoint a Lead Independent Director (LID) at this stage, although provision was made for this role in the last Annual General Meeting (AGM) notice.

The Chief Executive Officer (CEO)

The CEO is appointed by the Board, on contract. The contract is for an indefinite period, which may be terminated by the Group or CEO by mutual agreement, with a minimum notice period of three months.

The CEO reports to the Chairman and is responsible for developing, and submitting to the Board, a long-term strategy and vision for the strategic development and growth of the Group. In addition, the CEO is responsible for leading executive and operational execution in the business.

Other professional commitments of the CEO, including membership on Boards outside the organisation, are monitored through the internal Declaration of Interest process. There were no disclosures made in the current year. Succession planning for the CEO position is a Board responsibility and is addressed at that level, as well as at the Directors' Affairs and Governance Committee (DAG Com) meetings.

The CEO's key performance metrics for the coming year, which are aligned to the key performance objectives of the Group, are approved by the Board annually. The CEO's performance, in terms of these objectives, is assessed at financial year-end. The CEO is evaluated annually by the Board Chairman (or Co-ordinator of Board activities, when one was appointed). The roles of CEO and Chairman are not the same and are independent of each other.

Composition of the Board

The Board of Directors consists of individuals of calibre and credibility who have the necessary knowledge, skills and experience. There are 12 members on the Board, with the latest Board appointment being Marjorie Ngwenya Flanagan, in September 2019. There were no retirements or resignations of Board members during the reporting period. However, Frans Truter resigned from the Board with effect from 30 November 2019, while Sybille McCloghrie resigned with effect from 22 November 2019.

The Group applies the governance practice that the Board should comprise a majority of Non-Executive Directors, of which the majority are independent. The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence. However, the Group will be appointing new Directors to address succession planning and augment the strength of its Board in the year ahead.

Attendance at Board meetings from 1 October 2018 to 30 September 2019

The Board meets at least six times a year. A quorum comprises a majority of Directors of which at least 50% must be Non-Executive. The Board is satisfied with the level of attendance at meetings, which enabled it to fulfil its responsibilities according to its Charter.

Attendance at Board meetings for the reporting period is reflected below:

| Board meetings: 1 October 2018 - 30 September 2019 | | | | | | | | | | |
|--|----------------|----------|----------|----------------|-----------|----------|-----------|-----------|----------|----------|
| Name | Date appointed | 22/11/18 | 23/11/18 | 22/02/19 | 10/04/19* | 23/05/19 | 15/07/19* | 12/08/19* | 30/08/19 | 18/09/19 |
| Thabo Dloti | 07/03/19 | - | - | ✓ ¹ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Louisa Stephens | 02/07/15 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ |
| Sybille McCloghrie | 28/07/15 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sydney Mhlarhi | 06/07/16 | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ | X |
| Mark Joseph Harris | 29/08/18 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Happy Ralinala | 23/05/18 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Brian Riley | 25/05/18 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Peter Temple | 29/04/16 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Frans Truter | 07/08/15 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ |

| | | | | | | | | | | |
|---------------------------------|----------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|----------------|
| Marjorie Ngwenya Flanagan | 16/09/19 | - | - | - | - | - | - | - | - | X ¹ |
| Basani Maluleke (Executive) | 01/04/18 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Gustav Raubenheimer (Executive) | 03/07/15 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| TOTAL ATTENDANCE | | 10/10 | 10/10 | 11/11 | 11/11 | 11/11 | 10/11 | 9/11 | 11/11 | 10/12 |

✓ Meeting attended

✓¹ Attended as an observer

X Meeting not attended

- Not applicable (Director not appointed at that date)

X¹ Marjorie Ngwenya Flanagan's appointment was confirmed on 16 September 2019

* Board Strategic Planning Session

** Special Board meetings scheduled on short notice (not reflected on annual year planner)

Directors' independence

The Board has considered the King IV™ recommendations on the independence of Directors, as well as the provisions of the South African Reserve Bank (SARB) Directive 4 of 2018 issued in terms of Section 6(6) of the Banks Act 94 of 1990. The 'independent' status of the Directors is recorded in their profiles on pg 28 to 30 of the Annual Integrated Report at www.africanbank.co.za

Except for Brian Riley, the ex-Chief Executive Officer of African Bank, all Non-Executive Directors on the Board are independent. The companies in the African Bank Group were incorporated in 2014, with the first Directors being appointed in 2015, thus none of the Directors have reached a nine year tenure on the Board.

Selection and nomination of Directors

This matter is dealt with on pg 115 of the Annual Integrated Report in the Remuneration Report.

Director induction

Induction of newly appointed Directors takes place through a process customised for each Director, as was the case for the director appointed in September 2019. It includes one-on-one sessions with the Chairman, Board members, CEO, Executives and other relevant senior employees. Regular updates, training and deep dives take place, as identified by the Directors.

Directors' Code of Conduct

The Directors' Code of Conduct is entrenched in the approved Board Charter, which is reviewed annually. The Code of Conduct reminds Directors of the conduct required of them and emphasises the provisions of Section 60 of the Banks Act, which states that each Director, the CEO and the Executive Committee of the Bank owe a fiduciary duty, and a duty of care and skill, to the Group.

Conflicts of interest

Upon appointment as a Director, a declaration on all other directorships and memberships must be made. This declaration is reviewed by the Directors at each subsequent meeting for changes. Directors are also required to declare their own and related persons' personal financial interests as prescribed in the Board Charter, the provisions of Section 75 of the Companies Act and King IV™.

During the reporting period, the major declarations of directorships made by Directors, as stated on pg 31 of the Annual Integrated Report, were declared when appropriate and taken into account by the Board. The Director making the declaration disclosed their interest and any material information known to them in relation to the disclosure, and recused themselves from the meeting, to allow the Board to deliberate on the matter at hand.

Annual evaluations

The Board ensures that annual assessments of the individual Directors, the Chairman of the Board, the CEO, the Board as a whole and the Board Committees are conducted to support continued improvement in performance and effectiveness.

During June 2019, an external company, Acorim Proprietary Limited (Acorim), assessed the performance and effectiveness of the Board, Board Committees, individual Directors, Chief Executive Officer, Chief Financial Officer and the Company Secretary. The outcome indicated that the performance of the Board and its Committees currently meets expectations. There were also no areas of concern identified in relation to the Fit and Proper status of Directors. Acorim also conducted a peer assessment process for the first time, and the results were shared with the Chairman.

Acorim recommended certain areas of improvement mentioned below, and the Board will take into account identified remedial and other action to address these matters:

- Enhance optimal balance of experience and knowledge on the Board, for example, by appointing Non-Executive Directors with IT and digital experience, and Directors with extensive retail banking experience.
- Focus on how best to implement the Stakeholder Engagement Policy, which was approved during the first half of 2019.
- Consider arranging additional engagement sessions between the annual strategic sessions, to review the approved strategy, and proactively monitor delivery against the strategic imperatives.

The Board is satisfied that the evaluation process is improving its performance and effectiveness.

Company Secretary

The Group Company Secretary, Maliga Chetty, was appointed on 4 October 2018. The Company Secretary must provide the Board as a whole, and the individual Directors, with guidance regarding their duties, responsibilities and authority.

The Company Secretary maintains an arm's length relationship and is not a member of the Board. The independence and performance of the Company Secretary is assessed annually through the Board and Committee evaluation process and no issues of concern were identified during the last assessment process. Directors have unlimited access to the Company Secretary for advice and services, and are satisfied with the arrangements in place for them to access professional corporate governance services from the Group.

Delegation of Authority

The ABH and ABL Boards have delegated authority for the management of the Group to the CEO, by way of a formal Delegation of Authority (DOA). In delegating this authority, the Board has imposed certain restrictions, conditions and limits that they believe to be appropriate. The CEO has, in turn, sub-delegated authority to the African Bank Executive Committee (Exco) members, who are mandated to further sub-delegate to appropriate officials within the Bank.

The Board is satisfied that the DOA framework contributes to role clarity and the effective exercise of authority. The Board reviews the DOA regularly and retains the authority to monitor the Executive Committee's actions and performance. The Boards of African Bank Holdings and its Group companies retain specific authorities other than those delegated in terms of the Board Charter and the Board Committees' Terms of References. The retained authorities are as stated in the Board Charter.

Code of Ethics

The Code of Ethics was refreshed during the 2018 financial year and approved through the governance structures and by the Board. To ensure that employees understand the Code, extensive training is provided. The Whistle-Blowing Policy was also revisited. The Board-approved Treating Customers Fairly Policy and the Group's Treating Customers Fairly initiative are an important part of the efforts to establish an ethical culture. These efforts have resulted in employees feeling comfortable to report their suspicions of unethical behaviour and to engage with the internal ethics office.

To facilitate the reporting of fraud and unethical behaviour, the Bank has established the following reporting mechanisms:

- Ethics toll-free line: 0800 633 633
- Ethics email address: africanbank@tip-offs.com
- African Bank Customer Service Contact Centre number: 0861 111 011

Promotion of Access to Information Act, 2 of 2000

The Group has established a formal process to timeously deal with requests for access to records by third parties, within the prescriptions of the Promotion of Access to Information Act (PAIA). African Bank's PAIA information officer is Ciska Smit.

Board Committees

The compositions of all Board Committees are determined and reviewed at least annually by the Directors' Affairs and Governance Committee (DAGCom) and appropriate recommendations are made to the Board for approval.

All Board Committees should comprise at least three members. All Board members are welcome to attend Committee meetings, but do not have voting rights in Committees where they are not members.

The three Sub-Committees of the Risk and Capital Management Committee (RCMC), namely, Asset and Liability Committee (ALCO), Model Risk Committee (MRC) and Technology and Information Committee (TechInfCo), should aim to have at least two Non-Executive Directors appointed on these Committees.

The following Committees deal with specific risks facing the Group in accordance with Board-approved Terms of References.



Directors Affairs and Governance Committee (DAGCom)

Chairman - Thabo Dloti

Purpose

The Committee's prime objective is to assist the Board in its responsibilities in terms of Section 64B and Regulation 39 of the Banks Act. It also ensures compliance with the provisions of King IV™ and any other code of corporate practice and conduct, determined by the Board from time to time. The Committee assists the Board to evaluate the adequacy, effectiveness and appropriateness of the corporate governance structures, develops and maintains Board continuity and succession, and ensures that the process of effective corporate governance is adequately monitored.

2019 highlights and key focus areas

- Ongoing review of Board and Committee composition, succession planning, skills and gaps identified in considering potential Directors for appointment. The new Chairman was appointed in March 2019.
- Obtained regular feedback from the CEO on the Exco structure, status, changes, succession planning, areas of development and opportunity.
- Considered the orientation structure and programme for new Directors, and the inclusion of existing Directors in refresher updates.
- Deliberated on the outcomes of the annual assessment reports (Board, Committees, and individuals) from Acorim.
- Engaged with stakeholders, such as the Prudential Authority (PA) and shareholders, on various governance-related updates.
- Reviewed all Committee Terms of References, the Governance Framework and other related policies annually, or as required.

2020 focus areas

Key issues:

- Executive succession planning.
- Ensuring that the Group has an optimal executive structure, comprising appropriately skilled individuals to implement the Group strategy and fulfil delegated roles.

Additional issues:

- The tenure of the Board Chairman and the monitoring thereof.
- Embedding the annual peer-to-peer assessment process and maximising on outputs from the annual Board and Committee evaluation process.
- Sourcing and appointing appropriately experienced and skilled individuals for appointment as Independent Non-Executive Directors on the Board.
- Regular review of the skills and experience of Board members to ensure optimal Board composition.

Adherence to Terms of Reference

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference for the reporting period.

Attendance at meetings

The members of DAGCom comprise the relevant Chairmen of all Board Committees, including the Chairman of the Board.

Attendance at Committee meetings for the reporting period is reflected in the table below:

| Meetings: 1 October 2018 - 30 September 2019 | | | | | | | |
|--|---|------------------------------|------------|----------------|------------|------------|------------|
| Name | Designation | Date appointed | 22/11/18 | 22/02/19 | 23/05/19 | 20/08/19* | 30/08/19 |
| Louisa Stephens | Chairman, whilst Co-ordinator of Board activities | 01/08/18 (resigned 06/03/19) | ✓ | ✓ | - | - | - |
| Thabo Dloti | Chairman | 07/03/19 | - | ✓ ¹ | ✓ | ✓ | ✓ |
| Sybille McCloghrie | Member (RemCom Chairman) | 31/07/17 (resigned 31/12/18) | ✓ | - | - | - | - |
| Happy Ralinala ² | Member (SETCom Chairman) | 22/11/18 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Peter Temple | Member (RCMC Chairman) | 20/09/18 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Frans Truter | Member (AuditCom Chairman) | 10/12/15 | ✓ | ✓ | ✓ | ✓ | ✓ |
| TOTAL ATTENDANCE | | | 5/5 | 4/4 | 4/4 | 4/4 | 4/4 |

*Special Meeting held

¹ Attended as observer

² Attended as RemCom Chairman from 1 January 2019

Regular attendees at DAGCom meetings

Basani Maluleke (Chief Executive Officer)



Audit and Compliance Committee (AuditCom)

Chairman - Frans Truter

Purpose

The Committee is constituted in terms of Section 94 of the Companies Act, and in accordance with Section 64 of the Banks Act. The main purpose of the Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and financial statements, in compliance with all legal requirements and accounting standards.

2019 highlights and key focus areas

Refer to the detailed information in the AuditCom Report on pg 120-121 of the Annual Integrated Report at www.africanbank.co.za.

2020 focus areas

Refer to the detailed information in the AuditCom Report on pg 120-121 of the Annual Integrated Report at www.africanbank.co.za.

Adherence to Terms of Reference

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference for the reporting period.

Attendance at meetings

Attendance at Committee meetings for the reporting period is reflected in the table below:

| Meetings: 1 October 2018 - 30 September 2019 | | | | | | |
|--|-------------|----------------|------------|------------|------------|------------|
| Name | Designation | Date appointed | 14/11/18 | 07/02/19 | 10/05/19 | 15/08/19 |
| Frans Truter* | Chairman | 07/12/15 | ✓ | ✓ | ✓ | ✓ |
| Sydney Mhlarhi | Member | 11/10/16 | ✓ | ✓ | ✓ | ✓ |
| Happy Ralinala | Member | 14/11/18 | ✓ | ✓ | ✓ | ✓ |
| Louisa Stephens** | Member | 01/10/19 | - | - | - | - |
| TOTAL ATTENDANCE | | | 3/3 | 3/3 | 3/3 | 3/3 |

*Resigned as Chairman of AuditCom with effect from 1 December 2019

**Appointed on 1 October 2019 as a member, and as Chairman of AuditCom from 1 December 2019. Prior to this, Louisa Stephens served as a member of AuditCom from December 2015 until July 2018 when she stepped down to serve as the Co-ordinator of the activities of the Board.

Regular attendees at AuditCom meetings

Basani Maluleke (Chief Executive Officer)

Gustav Raubenheimer (Chief Financial Officer)

Sybille McCloghrie (Non-Executive Director by invitation)

Mark Harris (Non-Executive Director by invitation from August 2019)

Piet Swanepoel (Chief Risk Officer)

Nelanthrin Govender (Head: Group Internal Audit)

Saber Patel (Group Compliance Officer)

Costa Natsas (PwC Designated Audit Partner)



Risk and Capital Management Committee (RCMC)

Chairman - Peter Temple

Purpose

The RCMC is constituted in accordance with the terms of Section 64A of the Banks Act. The Committee and its Sub-Committees, oversee compliance with the Banks Act and Regulations, including execution of the Business Performance and Risk Management Framework, Recovery Plan and the Internal Capital Adequacy Assessment Process (ICAAP), on behalf of the Board. The RCMC reports its assessment of the effectiveness of the risk management and compliance processes to the AuditCom and to the Board.

2019 highlights and key focus areas

- Monitored and reviewed the risk appetite and tolerances regularly.
- Obtained and interrogated the quarterly reports on Enterprise Risk Management, operational risk, financial risk, information technology risk, credit risk including collections, market risk, and liquidity and funding risk.
- Debated the impact of macroeconomic and legislative developments from a risk perspective e.g. Authenticated Collections (DebiCheck).
- Considered and approved the current Recovery Plan, ICAAP, changes to the Domestic Medium Term Note (DMTN) programme and Euro Medium Term Note (EMTN) programme.
- Reviewed and considered top risks as identified by the Non-Executive Directors, taking into account risk identification as per the Enterprise Risk Management Framework.
- Received and considered the quarterly updates from its Sub-Committees, namely, Assets and Liability Committee (ALCO), Model Risk Committee (MRC) and Technology and Information Committee (TechInfCo).
- Reviewed the Committee Terms of Reference, Risk Data Aggregation, Risk Reporting, and other policies annually, or as required.

2020 focus areas

- Ensure more robust and independent assessments of various policies and processes.
- Obtain and interrogate the quarterly reports on Enterprise Risk Management, operational risk, financial risk, information technology risk, credit risk including collections, market risk, and liquidity and funding risk.
- Debate legislative developments from a risk perspective e.g. DebiCheck, Debt Relief Bill.
- Approve the current ICAAP and Recovery Plan, as well as changes to the EMTN.
- Debate and agree on the risk universe for the Group.
- Review progress of key projects e.g. Risk Data Aggregation and Risk Reporting, and Digital Banking (which includes Transactional Banking).

Adherence to Terms of Reference

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference for the reporting period.

Attendance at meetings

Attendance at Committee meetings for the reporting period is reflected in the table below:

| Meetings: 1 October 2018 - 30 September 2019 | | | | | | | |
|--|-------------|------------------------------------|------------|------------|------------|------------|------------|
| Name | Designation | Date appointed | 13/11/18 | 06/02/19 | 09/05/19 | 14/08/19 | 03/09/19 * |
| Peter Temple | Chairman | 20/09/18 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mark Harris | Member | 20/09/18 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sydney Mhlarhi | Member | 30/08/19 | - | - | - | - | ✓ |
| Brian Riley | Member | 20/09/18 (resigned 30/08/19) | ✓ | ✓ | ✓ | ✓ | - |
| Louisa Stephens | Member | 30/08/19 | - | - | - | - | ✓ |
| Marjorie Ngwenya Flanagan | Member | 18/09/19 | - | - | - | - | - |
| TOTAL ATTENDANCE | | | 3/3 | 3/3 | 3/3 | 3/3 | 4/4 |

**Special Meeting held*

Regular attendees at RCMC meetings

Basani Maluleke (Chief Executive Officer)

Gustav Raubenheimer (Chief Financial Officer)

Frans Truter (Non-Executive Director by invitation - AuditCom Chairman)

Piet Swanepoel (Chief Risk Officer)

Nelanthrin Govender (Head: Group Internal Audit)

Saber Patel (Group Compliance Officer)

Costa Natsas (PwC Designated Audit Partner)



Remuneration Committee (RemCom)

Chairman - Happy Ralinala

See the detailed Remuneration Report for the year ended 30 September 2019 on pg 111-119 of the Annual Integrated Report at www.africanbank.co.za.

Adherence to Terms of Reference

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference for the reporting period.

Attendance at meetings

Attendance at Committee meetings for the reporting period is reflected in the table below:

| Meetings: 1 October 2018 - 30 September 2019 | | | | | | | | | | |
|--|-------------|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Name | Designation | Date appointed | 16/11 /18 | 22/11 /18* | 04/12 /18* | 08/04 /19 | 09/05 /19* | 25/06 /19* | 12/07 /19 | 02/08 /19* |
| Sybille McCloghrie | Chairman | 07/10/15 (resigned 31/12/18) | ✓ | ✓ | ✓ | - | - | - | - | - |
| Sybille McCloghrie | Member | 01/01/19 | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Happy Ralinala | Member | 18/07/18 (resigned 31/12/18) | ✓ | ✓ | ✓ | - | - | - | - | - |
| Happy Ralinala | Chairman | 01/01/19 | - | - | - | ✓ | ✓ | ✓ | ✓ | ✓ |
| Frans Truter | Member | 07/10/15 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| TOTAL ATTENDANCE | | | 3/3 | 3/3 | 3/3 | 3/3 | 3/3 | 3/3 | 3/3 | 3/3 |

**Special Meetings held*

Louisa Stephens was appointed a RemCom member on 01/10/2019

Regular attendees at RemCom meetings

Basani Maluleke (Chief Executive Officer)

Gustav Raubenheimer (Chief Financial Officer)

Lindiwe Miyambu (Group Executive: Human Capital)



Sustainability, Ethics and Transformation Committee (SETCom)

Chairman - Happy Ralinala

A report on this Committee appears on pg 108-109 of the Annual Integrated Report at www.africanbank.co.za.

Adherence to Terms of Reference

The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference for the reporting period.

Attendance at meetings

Attendance at Committee meetings for the reporting period is reflected in the table below:

| Meetings: 1 October 2018 - 30 September 2019 | | | | | | |
|--|-------------|------------------------------------|------------|------------|------------|------------|
| Name | Designation | Date appointed | 02/11/18 | 05/02/19 | 07/05/19 | 01/08/19 |
| Happy Ralinala | Chairman | 01/08/18 | ✓ | ✓ | ✓ | ✓ |
| Sybille McCloghrie | Member | 12/02/16 | ✓ | ✓ | ✓ | ✓ |
| Brian Riley | Member | 20/09/18 (resigned 18/09/19) | ✓ | ✓ | ✓ | ✓ |
| Marjorie Ngwenya Flanagan | Member | 18/09/18 | - | - | - | - |
| TOTAL ATTENDANCE | | | 3/3 | 3/3 | 3/3 | 3/3 |

Regular attendees at SETCom meetings

Basani Maluleke (Chief Executive Officer)

Gustav Raubenheimer (Chief Financial Officer)

Lindiwe Miyambu (Group Executive: Human Capital)

Technology and Information Governance

The Technology and Information (TechInfCo) Committee, which is a sub-Committee of the RCMC, was constituted at the end of January 2019 in compliance with relevant legislation, King IV™ and governance best practice. Its main purpose is to give direction on account innovation, progressive development and the ethical and responsible use of information and technology.

At the establishment of the TechInfo Committee, the following were identified as key focus areas and are standing agenda items for Committee meetings:

- Operational review, which focuses on stability, security and financial effectiveness.
- Strategic risk review, in which emerging risks are raised and top risks within technology are reviewed and tracked.
- Technology strategy review, where the technology strategy is validated and reviewed. This includes Enterprise Architecture capability.
- The approval of material policies and charters.
- Innovation review, which provides an important mechanism for challenging traditional solutions on a continuous basis.
- Material project reporting, in which the critical projects are detailed.

2020 focus areas

The key focus areas in 2020 will be to continue the enhancement of the Bank's Governance Frameworks in line with its digitalisation aspirations, and to ensure that robust risk management underpins its transformation into a future-proofed and technologically innovative organisation.

Model Risk Committee (MRC)

The MRC is a Sub-Committee of the RCMC. Its prime objective and mandate is to approve all material models including impairments, scoring, profitability and affordability, all collection scorecards, ICAAP models and other models utilised within the Group. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies.

Asset and Liability Committee (ALCO)

The ALCO is a Sub-Committee of the RCMC. Its role is to manage the Group's liquidity and funding position, interest rate risk in the banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks and other related risks (ALCO risks) and the investment of surplus cash assets in approved ALCO asset classes and within ALCO limits. This is done in such a way as to maximise stakeholder return within the risk parameters as defined by the Group Risk Appetite Framework set by the RCMC. A further role of the ALCO is to review and recommend Group and bank strategy, taking into account the ALCO risks within the Group's overall risk appetite, to the RCMC.

Since the TechInfCo, MRC and ALCO are sub-committees of a Board Committee i.e. the RCMC, no further governance disclosures are required in terms of composition, meeting attendances, current and future focus areas.

Legislation that significantly impacts our business

The following is an overview of current and proposed legislation that has or will have, a significant impact on our business:

| Legislation | Nature of Change | Impact on business |
|---|---|---|
| <p>Financial Sector Regulation Act 9 of 2017 (FSRA)</p> | <p>The FSRA introduced significant reforms to the South African financial sector regulatory framework, with effect 1 April 2018. The Act allows for the establishment of authorities to supervise and regulate, on a consistent and comprehensive basis, in relation to the provision of financial products and financial services in South Africa.</p> <p>The authorities have been given powers to maintain and enhance financial stability and to protect the interests of customers acquiring or using financial products and financial services. The Act provides for the authorities to have powers relating to the licensing of financial institutions. It also provides for powers to gather information and to conduct on-site inspections and investigations.</p> | <p>With the establishment of the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA), the Act provides for the making of legislative instruments and to provide for prudential standards, conduct standards and joint standards.</p> <p>The Bank is actively working towards meeting the requirements that will be introduced through the conduct standards, which are currently in draft form. The Bank has been proactively implementing the principles of Treating Customers Fairly (TCF) which are now being codified through draft conduct standards.</p> |
| <p>Financial Intelligence Centre Amendment Act, 2017</p> | <p>Certain sections of the Financial Intelligence Centre Amendment Act took effect on 1 April 2019. The amendments relate to the Financial Intelligence Centre's ability to implement financial sanctions and to administer measures requiring accountable institutions to freeze property and transactions pursuant to financial sanctions that may arise from resolutions adopted by the Security Council.</p> | <p>The Financial Intelligence Centre (FIC) Amendment Act provides for the introduction of a risk-based approach to customer identification and verification. African Bank Limited's business environment has been highly impacted by these amendments. The FIC Act requirements have fully been implemented and incorporated into policies, standards and procedures.</p> <p>Our Board of Directors has approved and adopted a risk-based approach to customer identification and verification, documented in the Compliance Risk Management Programme (CRMP). All business policies have been reviewed and amended, including the implementation of financial sanctions measures in accordance with resolutions adopted by the Security Council of the United Nations.</p> <p>The Bank's core banking systems have also been amended to accommodate the implementation of a risk-based approach and customer due diligence requirements. New and existing customers are reviewed in terms of applicable customer due diligence standards, or as per the risk posed by the establishment of a business relationship, i.e. simplified, standard, and enhanced due diligence may be applied where the type of risk has been identified.</p> <p>The Anti-Money Laundering (AML) training materials and assessments have been reviewed and a training roll-out was effected and fully customised to empower both customer-facing and non-customer facing employees.</p> |

| | | |
|---|---|--|
| <p>National Credit Amendment Act, 2014 <i>and</i> National Credit Amendment Act, 2019</p> | <p>Various amendments to the National Credit Act (NCA) have been enacted. These include, but are not limited to, provisions (i) requiring the Minister of Trade and Industry (the Minister), on recommendation from the National Credit Regulator (NCR), to introduce affordability assessment regulations; (ii) empowering the Minister, in consultation with the Minister of Finance, to prescribe limits in respect of the cost of credit insurance that a consumer may be charged in connection with a credit agreement; (iii) prohibiting the selling or collection of outstanding debts which have prescribed; and (iv) empowering the Minister to prescribe, at any time, which consumer credit information held by credit bureaus should be reviewed, verified, corrected or removed, and to authorise the removal of certain (and potentially vital) adverse information from a credit bureau's records.</p> <p>The recent amendment to the Act (The Amendment Act) focuses on the introduction of capped debt intervention measures to further alleviate over-indebtedness of consumers. It allows for consumers who meet the criteria to apply to the NCR for a debt intervention for existing unsecured debt. The Amendment Act was signed into law in August 2019. The regulations have not yet been promulgated. The implementation of the amendments is estimated to be a phased approach, with the NCR processes set to be ready in 2021.</p> | <p>New affordability assessment regulations came into effect in 2015 and are used when assessing applications for unsecured loans. The Review of Fees and Interest Rates, which capped consumer credit interest rates, administration fees and initiation fees, was enacted on 6 May 2016. The cap on Consumer Credit Insurance levels came into effect from August 2017. The Bank has adapted to all of these changes.</p> <p>As a result of the recent amendments, the Bank may need to alter its credit risk appetite and reassess the provision of credit for new customers in this group. The Bank may also need to reassess its level of provisioning in respect of these accounts.</p> <p>The unintended consequences of the recent amendments is that consumers who fall within the scope of the Amendment Act will now fall outside the formal lending system, which means that they will only have access to the higher priced debt available in the informal credit market, leading to greater indebtedness. This will leave lower-income consumers exposed to unregulated markets.</p> |
| <p>Banks Act 94 of 1990</p> | <p>The Bank is required to maintain minimum levels of capital as set out in the Banks Act and the Regulations relating to Banks. Any failure to maintain the required minimum capital ratios may result in sanctions against the Bank, which may in turn impact the Bank's ability to conduct its business or to achieve growth.</p> <p>The maintenance of adequate capital and liquidity is also necessary for sufficient financial flexibility in dealing with any instability and uncertainty in economies.</p> | <p>Changes to such regulations and future regulatory reforms, e.g. increases in the regulatory minimum capital or liquidity requirements, and the full implementation of the minimum standards for funding liquidity in South Africa, in accordance with Basel III, could have a material adverse effect on the Bank's business, financial condition and results of operations. The Bank has therefore embarked on several initiatives to ensure that the minimum capital levels are maintained.</p> |
| <p>Protection of Personal Information Act, 2013</p> | <p>This Act is intended to promote the right to privacy, entrenched in the Constitution of South Africa, while simultaneously protecting the flow of information and advancing the right of access to information. The Act prescribes the rules and practices which must be followed when processing information about individuals. It introduces certain minimum conditions, such as acquiring consumer consent before processing personal information, and provides for the establishment of an independent regulator to enforce these rules, rights and practices.</p> | <p>While regulations relating to the Act have been finalised, gazetted and provide for additional responsibilities for information officers, these regulations do not have full effect until the commencement date has been gazetted. The Act provides for a transition period of one year after the commencement of the sections in the Act that impose obligations.</p> <p>Despite the uncertainty around the implementation date of these new legislative requirements, the Bank is in the process of implementing a project to address these responsibilities.</p> |
| <p>DebiCheck</p> | <p>As a result of concerns about debit orders being processed against bank accounts without permission (a mandate) from consumers, as well as concerns from banks that consumers were disputing debit orders despite giving legal and valid mandates, the South African Reserve Bank (SARB) requested that the Payment Association of South Africa (which includes the South African banks) find a solution.</p> <p>That solution is DebiCheck. Timeframes stipulated by the SARB dictate that from 1 May 2020, no new non-authenticated early debit order system (NAEDO) debit order agreements will be allowed to be processed. By 31 October 2020, all existing NAEDO instructions must be migrated onto the DebiCheck platform.</p> | <p>Through DebiCheck, a debit order will only be processed to a consumer's account if the mandate for such a debit order has been confirmed electronically. It is anticipated that this system will reduce the number of invalid debit orders being processed, as well as the number of consumer disputes where valid mandates are in place.</p> <p>DebiCheck is being implemented in a phased approach. Over this period, the banks will progressively convert to the new system. It is intended that DebiCheck will replace NAEDO, utilised by the Bank for the majority of its collections.</p> <p>Failure to implement the DebiCheck solution effectively and efficiently could result in the Bank being exposed to significant business risk, considering its current reliance on the NAEDO system for its collections.</p> |

Combined assurance

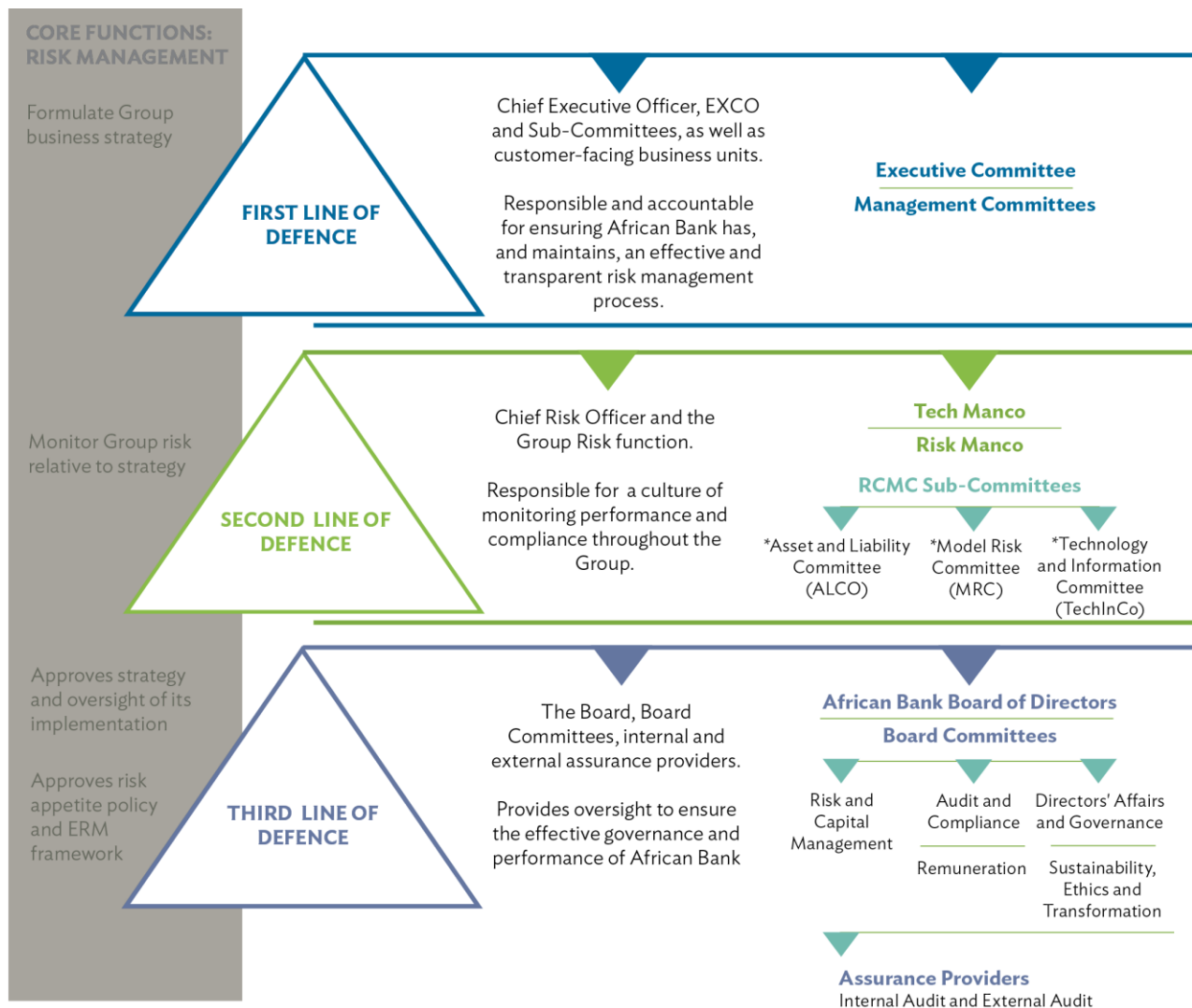
To ensure we have adequate assurance across the Group, and to prevent gaps or duplication in assurance efforts, we have adopted a combined assurance approach. The objective is to assure the Audit Committee (AuditCom) that significant areas of risk within our Group are adequately addressed, and that suitable controls exist to mitigate these risks.

To facilitate this, we employ an integrated planning and reporting process. This is achieved by aligning the activities of the separate assurance functions across the Group. To enable the necessary communication and discussion, African Bank has 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, Chief Information Officer, senior business leaders and our external auditors and Internal Audit.

A revised combined assurance framework was approved by the AuditCom in February 2019. This framework is key to ensuring that coordinated and relevant assurance efforts are directed to risks with the most potential impact. The Combined Assurance Forum reports to the AuditCom on its combined view of the coverage and assessment of the top four risk areas of strategic significance.

The 'Three lines of defence' model below depicts how the combined assurance approach is executed for key threats, to achieve our objectives.



*Both second and third line performed

COMNINED ASSURANCE MATRIX

| Key threats associated with strategic objectives/ targets | First line of defence | | Second line of defence | | Third line of defence | Governance structures reported to | Framework/ standards used | Outcome | Frequency of assurance and/or reporting |
|---|-----------------------|------------|------------------------|------------------------|--|--------------------------------------|---------------------------------------|---|---|
| | Exco | Group Risk | Compliance/ AML/ Legal | Compliance/ AML/ Legal | Independent assurance providers | | | | |
| Performance against strategic scorecard | | | | | PwC IA | Exco and Board | Board ³ Governance | Areas of enhancements with action plan being undertaken | Monthly Quarterly |
| Reliable and accurate financial and other reporting | | | | | PwC IA | Exco and AuditCom SetCom and RCMC | IFRS ¹ JSE ² | Adequate coverage | Biannually |
| Meeting financial targets | | | | | PwC IA | Exco, AuditCom and Board | Board ⁴ | Adequate coverage | Monthly Quarterly |
| Ensuring efficiency of operations | | | | | IA | Exco, RCMC and Audit-Com | Divisional ⁵ | Areas of enhancements with action plan being undertaken | Ongoing throughout the year |
| Achieving customer targets | | | | | IA Independent assurance providers | Board, SetCom and Exco | Third party ⁶ measurement | Adequate coverage | Monthly Quarterly |
| People targets | | | | | IA HC external providers | Exco, SetCom and RemCom | Internal measurement ⁷ | Adequate coverage | Monthly Quarterly |
| Compliance with laws and governance | | | | | IA PwC Independent assurance providers | Exco, RCMC and AuditCom | Applicable legislation and regulation | Adequate coverage | Monthly Quarterly |

Legend

- Exco providing assurance
- Group Risk
- Compliance/ AML/ Legal
- Internal Audit
- External Audit (PwC)
- Other external assurance providers

- 1 International Financial Reporting Standards
- 2 JSE 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

Internal audit

Our internal audit function, 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 concerned.

The Remuneration Committee (RemCom), the membership of which currently includes the Chairman 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 of Group Internal Audit is solely responsible for the function, scope of work and quality of delivery of the Group's internal audit. The functional reporting line is to the Chairman of the AuditCom, and the administrative reporting line is directly to the CEO. The Head of Group Internal Audit has unrestricted access to the Chairman of the Board and the Chairs of all Board Sub-Committees.

We have aligned our internal audit structure to allow for portfolio-based reviews, focusing on identifying business processes that are of strategic importance to the Group.

The activities of internal audit are designed to ensure quality, efficiency and agility in the delivery of assurance services and meeting the assurance expectations of our stakeholders.

A risk-based internal audit plan

The internal audit plan 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. If changes are necessary, they are approved by the AuditCom.

Progress on key focus areas for the audit plan

| Initiatives and scope | Progress |
|--|---|
| Credit risk assurance: <ul style="list-style-type: none"> • Credit models • Credit underwriting • Collections | Completed. Continuous monitoring of aspects of credit models. |
| Assurance on the Treasury function including capital management | Completed. Consistent/ongoing review of key aspects of balance sheet and capital management. |
| Information technology assurance | Completed. Ongoing review aligned to strategic focus on network security and the efficiency of operations in the new IT operating model. |
| Assurance on transactional banking | Proactive and real-time assurance on the Omni-channel platform and transactional banking. Assurance was also provided on DebiCheck and Principles for Effective Risk Data Aggregation and Risk Reporting (RDARR) initiatives. |
| Advanced and more predictive analytics assurance: <ul style="list-style-type: none"> • Credit • Collections • Revenue | In progress. Currently embedding continuous audits in credit, collections, transactional banking, savings and investments and advances book. |
| Departmental restructuring aligning to Group structure | Internal Audit adjusted its structure to ensure alignment to African Bank's revised structure. |

Internal audit was able to conduct its work free of any restrictions and is of the view that there were no material internal control weaknesses or deficiencies during the year under review that would render the internal financial controls and financial systems ineffective in producing reliable information for the financial statements.

Looking ahead

To provide high quality, risk-based advisory and assurance services aligned to the Group's strategic and operational objectives, Internal Audit will undertake the following key initiatives in the next financial year:

- Focus on data and digital transformation, including the use of data analytics, continuous audit process, predictive analytics and interactive reporting.
- Emphasis will be placed on customer-centricity, including customer engagement channels and various other touch points.