



Absa Group Limited
2018 King IV Application Review

Our reporting suite

Integrated report and environmental, social and governance disclosures

2018 Integrated Report	2018 Environmental, Social and Governance Review	2018 Broad-based black economic empowerment (B-BBEE) Report	2018 King IV Application Review	2019 Notice of annual general meeting	2018 Remuneration Report
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Scope and boundary

Activities of Absa Group including key banking and insurance subsidiaries.

These reports provide information regarding stakeholder relationships, material matters, risks and opportunities and our forward-looking strategy. B-BBEE applies to our South African operations.

Financial, risk and capital management disclosures

2018 Summarised annual consolidated financial statements	2018 Annual consolidated and separate financial statements	2018 Pillar 3 risk management report and Additional Tables	2018 Financial results booklet and investor presentation
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Scope and boundary

Absa Group including subsidiaries, associates and joint ventures.

Note 49.3 of the annual financial statements provides a list of material subsidiaries and consolidated structured entities.

Reporting standards/frameworks

Our external reports contain a range of information which is governed by a diverse set of regulations, frameworks and codes.

- Integrated Reporting <IR> Framework
- International Financial Reporting Standards (IFRS)
- King IV Report on Corporate Governance for South Africa, 2016™ (King IV)
- The Amended B-BEE Financial Sector Code (South Africa)
- The GRI G4 Standards, Financial Sector Supplement and the Greenhouse Gas Protocol
- South African Banks Act, No 94 of 1990
- South African Companies Act No 71 of 2008
- JSE Listings Requirements (South Africa)

Assurance

We apply a risk-based, combined assurance approach over the Group's operations. Internal controls, management assurance, compliance and internal audit reviews, as well as the services of independent external service providers support the accuracy of disclosures within our published reports. In line with their respective mandates, specific reports are reviewed and recommended to the Board for approval by the Disclosure, Social and Ethics, Remuneration, Directors' Affairs, Group Audit and Compliance, and Group Risk and Capital Management committees.

For 2018, PwC conducted limited assurance on select environmental, social and governance indicators and Empowerdex rating agency verified our B-BBEE performance. EY, our statutory auditors, have audited our annual financial statements. Information relating to the scope and conclusions of these can be found in the Limited Assurance Report, the Absa Group's B-BBEE certificate and the Group's annual financial statements, all of which are available on our Group website www.absa.africa

Reporting approach

Absa Group Limited ('Absa' or 'the Group') strives to incorporate the principles of good governance within our disclosures.

Reporting period and scope

1 January 2018 to 31 December 2018. Notable events after this date until the Board approval of the reporting suite on 23 April 2019 are included, as appropriate.

This report encompasses the activities of the Group, including our banking and insurance subsidiaries.

Target audience

This report is aimed at our shareholders but contains information relevant to other stakeholders.

Application of King IV

Absa is listed on the Johannesburg Stock Exchange ('JSE'). The King IV Report on Corporate Governance™ for South Africa, 2016 ('King IV' or 'the King Code') is the primary corporate governance code in South Africa and is applicable to all types of entities.

The King Code consists of a set of voluntary principles and leading practices with an 'apply and explain' disclosure regime. The Listings Requirements of the JSE require listed companies to apply King IV – paragraph 8.63(a)(i) stipulates that issuers are required to disclose the implementation of the King Code through the application of the King Code disclosure and application regime.

This document outlines how we have applied these of the principles and recommended practices and supplements the disclosures in our 2018 Integrated Report, particularly the governance disclosures, and our 2018 Environmental, Social and Governance Review.

Board approval

Assisted by our Directors' Affairs Committee, we the Board accept ultimate responsibility for the integrity and completeness of this King IV Application Review. It is our opinion that this report presents a fair and balanced view of our application of the principles and recommended practices of King IV, in support of sustainable value creation and prosperity for our stakeholders.

The Board approved this report on 24 April 2019.

Alex Darko	Jason Quinn	Tasneem Abdool-Samad
Colin Beggs	Mark Merson	Wendy Lucas-Bull
Daisy Naidoo	Mohamed Husain	Yolanda Cuba
Daniel Hodge	Peter Matlare	
Francis Okomo-Okello	René van Wyk	

We are an African group, inspired by the people we serve and determined to be a Group that is globally respected and that Africa can be proud of. We are committed to finding local solutions to uniquely local challenges and everything we do focuses on adding value.

We are creating an organisation that can make better decisions faster, is aligned and engaged at every level, headed by leaders who inspire the whole organisation to action and give our employees an emotional sense of belonging and commitment.

We are driven by our purpose and...

...guided by our promises.

We live by our Values.

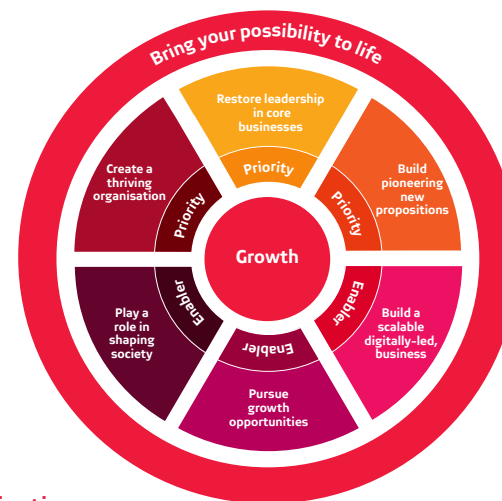
Bring your possibility to life.

We believe in possibility, in the actions of people who always find a way to get things done. We believe in creating opportunities for our customers to make their possibilities real and supporting them every step of the way.

- 1 For our people**, we will create a culture that appreciates, unifies and differentiates us from our competitors.
- 2 For our customers**, we will create unprecedented, seamless experiences to engage and delight them.
- 3 For society**, all our employees will lead with a conscience... doing the best for people and the planet.

- We drive high performance to achieve results**
- Our people are our strength**
- We are obsessed with the customer**
- We have an African heartbeat**

Our strategy will bring our purpose to life as we pursue our goal of growth.



3 priorities

To restore
To innovate
To empower

3 enabling capabilities

To scale
To grow
To shape

Our strategic objectives

- 1** Growing our portfolio while contributing to the growth of the markets we serve.
- 2** Reducing costs by creating a more efficient and effective organisation.
- 3** Delivering top, sustainable returns that maximise long-term value.

Our measures of progress

- 1** To grow revenue faster, on average, than the South African banking sector from 2019 to 2021, with an improving trend over time and within appropriate risk appetite parameters.
- 2** To consistently reduce our normalised cost-to-income ratio to reach the low 50s by 2021.
- 3** To achieve a normalised Group return on equity of 18% to 20% by 2021, while maintaining an unchanged dividend policy.

Our approach to King IV

Our governance practices align with those recommended in King IV and so comply with the related JSE Listings Requirements. We assess the governance benefits expected from application of the recommended practices to our key governance areas against King IV's envisioned outcomes of 'ethical culture', 'effective control', 'good performance' and 'legitimacy'.

We categorise the expected outcomes as either 'primary' or 'secondary'. For example, a focus on organisational ethics is expected to primarily promote an ethical culture. It is also expected to positively impact organisational performance, albeit not to the same extent - hence a secondary impact.

The themes below, are those dealt with in more detail in this application review.

Theme	Principle(s) assessed
Leadership and organisational ethics Page 6	Principle 1 The governing body should lead ethically and effectively. Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.
Responsible corporate citizenship and regulatory compliance Page 7	Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen. Principle 13 The governing body should govern compliance with applicable laws and adopted, non-binding rules, code and standards in a way that supports the organisation being ethical and a good corporate citizen.
Strategy and performance Page 8	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.
Reporting and assurance Page 9	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 its short, medium and long-term prospects. 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.
Board's primary role and responsibilities Page 10	Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation.

Theme	Principle(s) assessed
Board composition Page 11	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.
Delegation to management and committees Page 12	Principle 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgment and assist with balance of power and the effective discharge of its duties. Principle 10 The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.
Board and committee performance evaluation Page 13	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.
Risk governance Page 14	Principle 11 The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.
Technology and information governance Page 15	Principle 12 The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.
Remuneration governance Page 16	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.
Stakeholder relationships Page 17	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.
Responsibilities of institutional investors Page 18	Principle 17 The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.

King IV focus areas in 2018

After achieving a self-assessed 87% full application of the approximately 400 practices in 2017, and following our efforts in 2018 we are now largely King IV compliant. Focus was given to maturing and improving our practices, and specific focus was placed on remuneration governance (Principle 14) and corporate governance and stakeholder relationships (Principles 6 and 16) where our initial self-assessment had indicated partial application.

Principles 6 and 16

We worked to further improve the governance landscape of our subsidiary entities, both in and outside South Africa, through the development of a Group Governance Framework, building on our previous memorandum of understanding which was in place between the Group and the subsidiary banks in the Absa Regional Operations countries.

In 2018, we:

- Completed the development of the Group's Governance Framework.
- Developed detailed proportional application guidelines to assist our subsidiaries in determining the aspects of King IV that they should be applying taking into account their governance needs relative to factors such as the size and complexity of their respective businesses.
- Engaged with our material subsidiaries on the application of King IV and on the terms of the Group Governance Framework, receiving inputs and incorporating same through an iterative process.
- Reviewed the governance structures of our material subsidiaries as part of the Board's oversight of group governance as recommended under Principle 16.
- Continued to refresh the boards of our material subsidiaries with a view to appointing directors of the right calibre with the appropriate mix of skills and experience and to make the correct decisions at key levels of governance (in fulfilment of the aspirations of Principle 16).

We made further progress with regards to managing and engaging with our key stakeholders and developed a stakeholder policy and framework which were approved by the Board. A broader-based stakeholder strategy will be completed in 2019.

Principle 14

We sought to embed the practices so as to improve our remuneration policy, practices and disclosures.

In 2018, we:

- Developed a revised reward philosophy and remuneration policy following deconsolidation from Barclays PLC which has been approved by the Remuneration Committee.
- Focused on developing market and shareholder aligned targets for the 2019 long-term incentive allocations, aligned to the approved medium-term strategic targets of the Group.
- Ensured transparent reporting of the long-term incentive plan targets (new and old) and the outcomes of the short-term incentive in the 2018 Remuneration Report.
- In line with Practice 39 of Principle 14, the Board engaged with shareholders following the votes cast for the Group's 2017 remuneration policy and implementation report at the 2018 annual general meeting. The details of this engagement and our responses are included in the background statement the remuneration section in the 2018 Integrated Report.

Other notable actions included:

Principle 15

We made further progress with regard to combined assurance, articulating clearer definitions of the 2nd and 3rd lines of defence as well as further measures to embed these throughout our operations. Notably combined assurance is an integral control applied to the Separation.

Internal audit provided King IV compliance reports at each financial reporting cycle related to the governance environment, noting how the environment supported financial reporting and the positive outcomes thereof for the Group.

Leadership and organisational ethics

Principle 1

The governing body should lead ethically and effectively.

Principle 2

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

Expected outcomes

Ethical culture (primary)

Legitimacy (primary)

Effective control (secondary)

Good performance (secondary)

The Board recognises that for leadership to be effective it must be ethical. Our directors are committed to the highest standards of integrity and ethical behaviour and set the tone at the top through exemplary behaviour. They uphold the standards of conduct required by law; obey the rules of the Board Charter, the provisions of the Group's Memorandum of Incorporation, and relevant policies; and oversee the embedment of an ethical culture in the organisation.

Our Board Charter sets out the behaviours required of directors in areas that have the potential to lead to actual or perceived unethical conduct, such as conflicts of interests or dealing in Absa Group securities. Directors regularly declare their interests and those of their related parties and recuse themselves from discussions or decisions on matters in which they have declared an actual or potential conflicts. A director's conduct is also considered during peer reviews and the Board takes the outcomes into account when proposing directors for re-election by shareholders.

The Board, through our Social and Ethics Committee, is responsible for overseeing ethics and ethical conduct in the Group. The Committee monitors and evaluates management's programmes aimed at embedding an ethical culture among employees. Our code of conduct defines the way we think, work and act, and aligns our policies and practices with our Values. As part of managing risk to our reputation we subject our suppliers to high standards of behaviour. To assist in improving our organisational culture and in achieving the objectives we set in our growth strategy, we have determined, through a group-wide survey, the desirable culture and behaviours that should be exhibited by all employees, with leadership setting the tone at the top.

The Board approved our new Values which will be socialised and embedded among employees across the Group from 2019:

- We drive high performance to achieve sustainable results.
- We are obsessed with the customer.
- Our people are our strength.
- We have an African heartbeat.

Employee conduct is monitored through culture surveys and by tracking disciplinary cases, grievances and ethical breaches. This analysis assists in determining the areas impacting culture, and how to better align these with our Values.

Conduct forms part of an employee's performance assessment and unethical conduct can result in a range of possible sanctions, including dismissal. Board committee oversight of the Group's ethical environment includes:

- Group Audit and Compliance Committee: monitors the levels of fraud in the organisation and the root causes, through reports from operational risk, internal audit and external audit.
- Directors' Affairs Committee: oversees the results of internal and external forensic investigations as well as regulatory investigations and related breaches, fines and management's responses.
- Social and Ethics Committee: over and above the ethical culture and implementation thereof, the committee monitors the outcomes of whistle-blowing and related forensic investigations, conduct-related customer impact, Ombudsman reporting and so forth.
- Remuneration Committee: receives reports on legal, conduct and reputational risks which may impact individual compensation (including share and bonus awards).

Our whistle-blowing programme is a key aspect of our corporate citizenship efforts. It enables confidential and anonymous reporting of inappropriate conduct, unethical behaviour, breached rules, detection and combatting of fraud and corruption, and employees' or business partners' conflicts of interest. Our whistle-blowing programme also deters undesirable conduct and encourages desirable behaviour through:

- (i) training and awareness, and
- (ii) encouraging whistle-blowing when required.

During 2018 the Social and Ethics Committee and our Board were briefed on the *modus operandi* of the whistle-blowing programme clarifying roles and responsibilities with regards to incident reporting, investigations and remedial actions, the systems and processes used to support the reporting, and assurance provided on disciplinary and grievance information.

In line with global norms and in compliance with relevant legislation, our Board-approved anti-bribery and anti-corruption policy provides guidance on identifying and managing risks such as employment and work opportunity risk; expenditure risks (facilitation payments, political donations, gifts and entertainment); and third-party risks.

The Group's Securities Dealing Code prohibits the Board, Executive Committee and other employees considered as insiders from trading in the Group's securities during closed periods. Directors and senior managers require permission to trade outside of closed periods and granting of such permission is subject to exceptional circumstances.

**Responsible
corporate
citizenship and
regulatory
compliance**

Principle 3

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

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.

Expected outcomes

Ethical culture (primary)
Legitimacy (primary)
Good performance (secondary)

Expected outcomes

Ethical culture (primary)
Legitimacy (primary)
Effective control (secondary)
Good performance (secondary)

We consider good corporate citizenship as a strategic imperative. Our Board, through the Social and Ethics Committee, approves policies and strategies, and monitors and evaluates programmes that strengthen and maintain our standing as a good corporate citizen. Our aim is to leverage our assets and expertise to contribute towards solutions that address the societal challenges which we believe we can most positively impact. Collaboration is key to our approach, and we work with like-minded stakeholders to implement mutually beneficial solutions in supporting education and skills development, and enterprise development.

We have a duty to ensure compliance with laws and regulations relevant to our business. The Group Audit and Compliance, Social and Ethics and Directors' Affairs committees assist the Board in discharging its oversight responsibilities of monitoring legal and regulatory compliance. Our Head of Compliance oversees the compliance framework, while individual business leaders are responsible for embedding compliance. Our employees receive annual mandatory training on policies and

regulations and every employee is expected to comply with the applicable laws and regulations.

In accordance with Principle 13's recommended practices, we continuously review our framework for, and ability to, assess legislation and regulations and their impact on the Group's operations. The Board has assured itself of the robustness and efficacy of our regulatory compliance framework and, consequently, our ability to monitor and adapt to new and amended regulations or legislation. We have strengthened our regulatory compliance processes by, among other things

- (i) ensuring greater standardisation of processes in the regulatory continuum between South Africa and our Absa Regional Operations entities, and
- (ii) methodically tracking regulatory changes to fully understand their impact.

Our Board, through the Directors' Affairs Committee, is briefed on key proposed, new and revised legislation and the

state of relations with regulators in each jurisdiction enabling prevention or speedy resolution of issues.

Our employees' health and wellbeing form a critical part of our corporate citizenship efforts. Employees have access to various programmes, benefits and facilities, including flexi working hours (where suitable), learning and education, skills development, health and fitness, wellness programmes and counselling services (physical, mental and financial wellness).

In our real estate portfolio the Board approved the repurposing of Absa Towers Main so to develop a multi-use building in the Johannesburg city centre to reinforce the city as a viable live, work and play environment. Our employees have the opportunity to invest in accommodation in close proximity of our head-office. We are focused on more efficient sources of energy for our properties, ensuring green star status for all new buildings, and have run numerous water and waste recycling campaigns.



Strategy and performance

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.

Expected outcomes

Good performance (primary)
Legitimacy (secondary)

Our Board is responsible for creating and delivering sustainable value for shareholders by overseeing the management of the business. The Board

- (i) approves the Group's strategic objectives, business plans and annual budgets; and
- (ii) monitors implementation of the strategy and plans according to the approved risk appetite, the available opportunities, and the macro and regulatory environment. Each Board committee monitors execution of the strategy and business plans according to its specific mandate.

In 2018, we focused on the:

- first stages of the execution of our new Retail and Business Banking South Africa strategy;
- development of the steps needed for the integration of our Retail and Business Banking and insurance businesses;
- Separation activities throughout the business with a focus on Corporate and Investment Bank and Absa Regional Operations; and
- development of the financial targets for our medium-term plan.

In developing the latter, we were cognisant of the relationship between strategy and aspects of the triple context i.e. the combined context of the economy, society and the environment in which we operate.

Our methodology for linking risks and opportunities is continuously reviewed to ensure it is fit-for-purpose and we will further embed and evolve our approach over time. The way in which the Board (through the Group Risk and Capital Management and the Group Credit Risk committees in particular) – considers the risk appetite for the Group is the manifestation of the trade-offs between risk and opportunities. Complex decisions regarding capital allocation to relevant businesses and the importance not only of risk appetite controls and limits, but the actual utilisation of approved risk appetite is testimony to the focus on business and growth opportunities within the context of a risk decision matrix.



Reporting and assurance

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.

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 its short-, medium- and long-term prospects.

Expected outcomes for both

Effective control (primary)
Good performance (primary)
Ethical culture (secondary)
Legitimacy (secondary)

Our combined assurance activities focus on our most important and at-risk areas – critical processes, strategy change programmes and material control issues - where at least two levels of assurance are applied to each. The assurance providers include:

- business and management assurance as the first line of defence;
- compliance and key risk officers as the second line of defence; and
- internal audit and external audit as the third line of defence.

Although no gaps were specifically identified,

- the combined assurance process is still maturing; and
- assurance of external reports (identifying qualifying external reports, levels of assurance, and provider of assurance in respect of each) are subject to a framework to be completed in 2019.

Our combined assurance approach has been an area of focus within the Separation where PwC, as an independent assurance provider, internal audit, and EY as external auditor, have all been involved in assurance of Separation programme activities; their reports are an important contributor to risk management for the Separation Oversight Committee.

In addition to legislative or regulatory requirements, we are determining, and evolving our approach to the appropriate type/level of assurance so to support the integrity of each external report. We developed a framework for external reporting, identifying the combination of internal and external assurance providers per report. The Board or relevant mandated committee determines the effectiveness of the assurance process applied to each external report and issue a statement on the integrity of such report accordingly.

Our primary reports to stakeholders are the integrated report and environmental, social and governance disclosures (including a broad-based black economic empowerment report, and this King IV application review), as well as financial, risk and capital management disclosures (including interim and annual financial statements and various risk disclosures over the course of the year).

The credibility of our regulatory reports and their utility for our stakeholders depend on the quality of assurance. Regulations around other reports, such as the integrated report, are more flexible with regard to disclosure within guidelines and standards, and the content of these reports and related assurance is developing continually. The Group's combined assurance approach optimises assurance activities so that, taken as a whole, they

enable an effective control environment and ensure integrity of information for decision-making and external reports.

The Group Audit and Compliance Committee oversees assurance services and the effectiveness of the Group's control environment. The Group Risk and Capital Management Committee reviews all risk-related disclosures in external reports. Our Disclosure Committee, a sub-committee of the Group Audit and Compliance Committee, assists in developing material matters for disclosure, and in reviewing and approving the integrated report.

In applying King IV's recommendations on the assurance of external reports, the Group Audit and Compliance Committee has supervised the development of a framework that allows a phased approach to disclosure of assurance activities in relevant publications.

Our phased approach implements measures including:

- formal attestation by relevant executives;
- Board approval of all externally published reports; and
- a statement of assurance on the integrity of the report, including the basis for such statement by the responsible Board committee. A template for disclosing external reports' assurance has similarly been developed.

Board's primary role and responsibilities

Principle 6

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

Expected outcomes

Effective control (primary)
Good performance (primary)

Our Board, (assisted by the Directors' Affairs Committee) is the focal point and custodian of the Group's corporate governance. The Board Charter is the foundation of the Group's governance principles and practices and is reviewed and refreshed annually. The Board Charter outlines the mandate of each Board committee, sets the criteria for assessing director independence and expectations of committee chairs, cooling-off periods for executive and non-executive roles, provides guidance to directors on their other directorships and delineates the roles of the Group Chairman and Chief Executive Officer, Lead Independent Director, non-executive and executive directors. The Directors' Affairs Committee tracks progress against the Board's annual governance objectives, the results of which are published in the integrated report.

We have a suite of policies for areas such as authority levels, risk conduct/culture, and share dealing, which the Board or its committees regularly review and approve to formally embed good governance and the desired behaviours in the organisation.

A focus for 2018 has been the development of a Group Governance Framework which entrenches the position of the Board as the focal point and custodian of corporate governance in the Group, creating formal and positive relationships with all material subsidiary entities beyond mere shareholding and company law control mechanisms.

An essential principle underpinning the development of this framework is the recognition by the Board of the separate legal status of subsidiary entities to whom their own directors owe fiduciary responsibilities and are liable for risks relating to their operations. The Governance Framework was approved in December 2018 following an iterative process of engagement and was adopted by material subsidiary boards in the first quarter of 2019. Once adopted, the Framework will form part of each entity's governance environment.

The Framework is expected to improve overall governance in the Group by *inter alia*:

- Facilitating oversight of governance and control of our subsidiary entities by the holding company while respecting the independent legal and governance responsibilities of subsidiary boards.
- Streamlining the approach to key governance practices and creating certainty in key areas e.g. process for appointing non-executive directors to subsidiary boards, charge-back of expenses to entities; and changes to capital structures.
- Clarifying the manner of developing, approving and applying policies across the Group.
- Clarifying the roles and responsibilities of the holding company, acting through its Board, on the one hand,

and the subsidiary entities, acting mainly through their respective boards, on the other, in respect of the governance matters set out in the Framework.

- Improving the flow of information and exchange of ideas between the Group and subsidiaries with a consequent positive impact on the effectiveness of communication between the parties.

A new aspect for the Group, and one that is dealt with through the Framework, is the matter of proportionality, i.e. the extent to which King IV is applied by each of the subsidiary entities. For larger and regulated entities, we have recommended application of the 16 principles of the King Code (but not necessarily across all the practices); while in smaller, less strategic entities, a significantly lower level of application of the practices has been recommended.

Following the Separation, a key subsidiary governance policy - our Legal Entities and Directors' Policy - has been revised. This policy provides more operational detail on certain governance principles and standards set out in our Framework and facilitates their application with guidance on the appointment of directors; the roles of boards, shareholders and management; systems for storage of legal entity documentation, process for establishment of a new entity; and so forth.

Board composition

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.

Expected outcome

Good performance (primary)

As from 1 May 2019, our Board comprises 10 independent, one non-executive and three executive directors. An independent non-executive director chairs the Board, and her performance assessment is led by the Lead Independent Director, who acts as Chairman in her absence or when she is conflicted on a particular matter before the Board or any committee that she chairs.

In appointing directors, the Board considers educational background, personal attributes, professional expertise, industry knowledge, gender, and ethnicity to enhance the collective skills of the Board. The Directors' Affairs Committee assists in identifying suitable candidates and facilitates the formal appointment process as set out in the Board Charter. The Board considers the recommendation of the Directors' Affairs Committee when appointing directors.

We regularly review the composition of our Board, including skills set, and appropriate diversity in all areas (knowledge, experience, gender, and ethnicity) which are critical to engender debate and diverse views so enabling the Board to effectively execute its oversight duties. Directors' succession planning (especially for committee chairmen) assists continuity for the Board and its institutional knowledge. Our Board Charter has a policy to promote race and gender, and the integrated report includes a diversity statement, in accordance with the JSE Listings Requirements.

The Group's Memorandum of Incorporation requires that one-third of directors be re-elected at each annual general meeting in line with its rotation policy, and the Board Charter requires that directors who have served for more than nine years are also subject to annual re-election. In terms of a directive issued by the Prudential Authority of the

South African Reserve Bank in October 2018 ('the Directive'), a director is deemed non-independent after nine years on the board. We have received dispensation for two of our directors in this regard, both of whom will, subject to the normal tests for independence, remain so classified until June 2020.

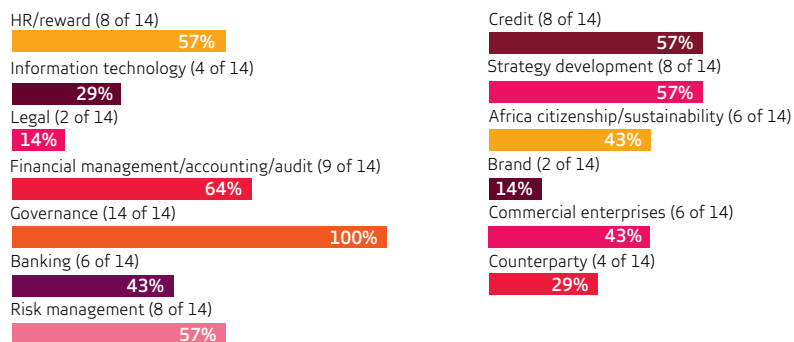
Summarised profiles of directors eligible for election and re-election are included in the notice of annual general meeting to assist shareholders in their decision-making. The summarised profiles of the remaining directors are also included.

Each non-executive director's independence is assessed annually. In line with King IV's recommendation, non-executive directors are required, on an annual basis, to formally confirm their capacity to effectively discharge their duties and responsibilities as members of the Board and its committees.

This process is guided by the Board with respect to the maximum number and types of directorships that a director may hold in addition to his/her directorship(s) of the Absa Group. This guidance is pursuant to the Directive. Independent non-executive directors are also required, in terms of the Directive, to declare their independence annually and whenever circumstances change that may affect their independence status. As at 31 March 2019, all our independent non-executive directors confirmed their capacity for Board responsibilities and have declared their independence taking into account to a range of factors (being a collective of those recommended by King IV and the Directive).

The Board is satisfied that its composition aligns with the recommendations of King IV, complies with regulatory requirements and is sufficiently diverse, independent, and able to effectively discharge its duties and responsibilities.

Skills and expertise



Delegation to management and committees

Principle 8

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

Principle 10

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

Expected outcomes

Effective control (primary)

Good performance (primary)

Our shareholders delegate authority to the Board through the Memorandum of Incorporation and shareholders' resolutions passed at general or annual general meetings. To function effectively, the Board Charter enables the Board to establish and delegate specific oversight roles and responsibilities to its committees and individual directors. The day-to-day running of the business is delegated to executive management, with certain matters reserved for the Board's own decision-making.

Terms of reference for each committee dealing with standard items such as membership, role clarification and nature of delegated authority are approved by the Board and are regularly reviewed. Our Enterprise Risk Management Framework and certain governance policies, such as those pertaining to approval mandates, further clarify the roles and powers of the various governance bodies.

The membership of each Board committee is selected after consideration of factors such as:

- skills requirements;
- effective collaboration through cross-membership between committees;

- guidance of a maximum number of committee memberships per Board member;
- a need for a balanced distribution of responsibilities and power among directors; and
- regulatory requirements if applicable. The Directive of the Prudential Authority of the South African Reserve Bank requires all committees established pursuant to the South African Banks and Companies Act, to be chaired by independent non-executive directors. All but one of our committees (the Models Committee) were already chaired by independent non-executive directors.


The Board remains accountable to shareholders for responsibilities delegated to committees and individual directors. Committee chairs regularly report to the Board on material matters discussed and decisions taken by their committees. Other than our executive directors, senior managers account to the Board by attending and making presentations at various committee meetings, as required by their functions.

Our Board has the power to appoint, assess and dismiss the Chief Executive Officer, Financial Director and the Group

Company Secretary. The Chief Executive Officer appoints senior management in consultation with the Board. The Board, assisted by the Directors' Affairs Committee, considers executive directors' succession and approves the terms of reference of the Group Executive Committee. The Group Audit and Compliance Committee approves the Chief Internal Auditor's appointment/dismissal and oversees his/her performance and remuneration. The Group Audit and Compliance Committee is also required to sanction the appointment of the Group Compliance Officer. While the Group Risk and Capital Management Committee is required to sanction the appointment of the Chief Risk Officer.

The Group has a full-time Group Company Secretary. Her qualifications, competence and experience are evaluated annually.

The Board has assessed the Group Company Secretary on all the necessary measures for 2018 and confirmed that she meets the relevant regulatory requirements and best practice recommendations.



**Board and
committee
performance
evaluation**

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.

Expected outcome

Good performance (primary)

The effectiveness of our Board, Board committees, Chairman, individual directors, corporate governance structures, and processes and procedures are regularly assessed against set criteria. Matters arising, including areas requiring improvement and remedial plans, are presented to the Board. Remediation of any shortcomings is monitored by the Directors' Affairs Committee until the next evaluation. The Chairman engages with individual directors on the outcome of peer reviews to address areas for development or those of concern.

The Board's effectiveness review in respect of 2018 has been independently facilitated by the Institute of Directors of Southern Africa. No material issues emanated from the reviews, and substantive feedback has been provided in regard to the activities of the committees and to each board member in relation to their peers.



Risk governance

Principle 11

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

Expected outcomes

Effective control (primary)
Good performance (primary)

Our Board has overall responsibility for the Group's risk management. The extent to which we are able to monitor and effectively manage the material matters that have potential to affect the sustainability of our business, is directly linked to our value-creation efforts.

Our Enterprise Risk Management Framework (incorporating the principal and key risks) is approved by the Board and provides the basis for policies and standards, and for establishing the appropriate risk practices throughout the Group. Executive management is responsible for executing risk policies and embedding risk management in the business.

The Group Risk and Capital Management Committee assists the Board with the governance and oversight of risk, capital and liquidity management. The Committee approves the Group's risk appetite, taking into account the Group's strategy and the current and anticipated macro and business environment.

Other Board committees monitor the key risks relevant to their mandates:

- Group Credit Risk Committee: credit and concentration risk.
- Social and Ethics Committee: conduct, reputation, people and environmental risks.
- Directors' Affairs Committee: reputational risk.
- Group Audit and Compliance Committee: financial reporting, operational, fraud and tax risks.
- Models Committee: model risk.
- Information Technology Committee: information and technology risk, including cyber risks.

Environmental and regulatory changes are a key consideration in identifying and managing our sustainability.

We consider risk management a collective effort, and employees receive mandatory training to familiarise themselves with risk management policies relevant to their functions; teach them how to identify, mitigate, manage and, when necessary,

escalate actual or potential risks; and provide a role-appropriate level of awareness of the risk management process as defined by our Enterprise Risk Management Framework.

The Board, through the Group Audit and Compliance Committee and the Group Risk and Capital Management Committee, receives assurance on risk management from the various assurance providers in line with the three lines of defence in the combined assurance model. Assurance work which identifies conduct or reputational risk is escalated to the Social and Ethics Committee or the Directors' Affairs Committee, as appropriate.

As a regulated bank holding company, we publish comprehensive risk management reports on our corporate website (<https://www.absa.africa/absafrica/investor-relations/capital-risk-management/>). These provide a complete overview of the risks and risk profile of the Group. Summarised reports are included in the annual and interim financial results publications.

The Board continuously considers the risks and opportunities in the Group's business environment and manages them to create value for shareholders.

Technology and information governance

Principle 12

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

Expected outcomes

Good performance (primary)

Information and technology are central to our competitiveness, growth and sustainability and form part of our Board's annual governance objectives. The Board has delegated the day-to-day responsibility of the information and technology governance framework to executive management.

The Information Technology Committee assists the Board in overseeing and governing information and technology for the Group. The Committee's terms of reference reflects King IV's distinction between oversight of:

- (i) information assets; and
- (ii) technology infrastructure used to generate, process and store information.

The Group Audit and Compliance and the Group Risk and Capital Management committees oversee selected components of controls and risks related to information and technology.

Our information and technology strategy is aimed at enhancing the stability, security, resilience, and competitiveness of the Group's information systems and technology infrastructure.

The Information Technology Committee will continue focusing on:

- our infrastructure;
- system availability and stability;
- technology risk;
- cyber security;
- people risk within technology;
- data (maintenance, systems and access);

- digital transformation and innovation;
- technology separation;
- strategic investments; and
- reporting on value delivered by information technology investment and projects.

We are implementing a Group-wide privacy programme, the initial phases of which are scheduled to run until August 2020. This programme will provide a roadmap for the development, implementation and embedment of privacy-specific deliverables to ensure, inter alia, compliance with applicable data protection legislation, including the Protection of Personal Information Act 4 of 2013 and other country specific and international standards.



Remuneration governance

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.

Expected outcomes

Ethical culture (primary)
Good performance (primary)
Legitimacy (primary)
Effective control (secondary)

Our Remuneration Committee oversees governance matters in relation to the Group's remuneration philosophy, policies and frameworks.

Our remuneration principles and practices are designed to ensure remuneration is competitive, fair, incentivises performance, assists in retaining talent, reflects regulatory requirements and risk considerations and aligns with the Group's conduct expectations. Our obligation to comply with certain remuneration practices of the European Union Capital Requirements Directive IV ceased with the achievement of regulatory deconsolidation from Barclays which became effective on 30 June 2018.

We are focused on applying the recommended principles and practices of King IV in respect of our remuneration. We developed a revised reward philosophy and remuneration policy, which was approved by the Remuneration Committee in 2018. It defines a

strategic approach to remuneration benefits including fair and responsible executive management remuneration in relation to overall employee remuneration, and the elements of, and mix of, remuneration that is offered by the organisation.

The policy comprehensively:

- addresses the principles of fair and responsible remuneration;
- addresses our approach to remuneration and disclosures;
- incorporates all the elements of remuneration that are offered by the organisation; and
- aligns to the Group's value-creation efforts.

Our 2018 Remuneration Report aims to explain the history of our remuneration journey as a result of Barclays relationship and subsequent Separation, the key concerns and recommendations of shareholders and provides more transparent disclosure

by addressing the main provisions of the policy and the implementation thereof. Our approach to shareholder voting on remuneration at the annual general meeting is also addressed. We have disclosed a single aggregated annual remuneration total for each executive director and prescribed officer and disclosed their awards at fair value.

Our 2018 Remuneration Policy and 2018 Implementation Report are to be considered at the annual general meeting on 4 June 2019 for non-binding advisory votes by shareholders, in accordance with King IV's recommendations and the JSE Listings Requirements.

Our Board proactively engages investors to explain our remuneration principles and practices. We believe that our enhanced 2018 remuneration disclosures have addressed the matters raised by our shareholders in regard to our 2017 remuneration implementation report.

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.

Expected outcomes

Legitimacy (primary)
Good performance (secondary)

This section should be read in conjunction with the Board's primary role and responsibilities on page 10.

Our stakeholders are integral to our business success and, as such, our Board proactively engages with our material stakeholders to understand their views and concerns.

Management of stakeholder risks is an integral part of group-wide risk management. Our Board is assisted by the Social and Ethics Committee in overseeing stakeholder governance.

Stakeholder groups have been identified, and the key matters they raised have been reported in our 2018 Integrated Report and our 2018 Environmental, Social and Governance Review.

The Group generally applies a stakeholder-inclusive approach and operates a decentralised stakeholder management model. Where relevant, executives define the engagement approach, including the mechanisms of engagement, the frequency of engagement,

issue management, reporting and dispute management. It is the responsibility of all employees to manage relationships effectively (guided by our code of conduct) and to ensure, within reason, that both internal and external stakeholders' reasonable needs and expectations are met.

During 2018, our Board deliberated and approved a revised stakeholder management policy and framework. This formalised stakeholder management framework:

- (i) is expected to improve the Board's and Social and Ethics Committee's supervision and direction of stakeholder engagement matters; and
- (ii) recognises our decentralised stakeholder engagement approach, but calls for a central point to collate engagement results.

The policy:

- identifies the Group's primary stakeholders;
- sets out the methods and guidelines for engaging each stakeholder;
- sets out guidance on stakeholder engagement principles (to promote meaningful engagement); and
- identifies stakeholder engagement assessment and monitoring.

We continue to improve the measurement of the quality and maturity of our stakeholder relationships.

- 📄 Our stakeholder value creation summary in our 2018 Integrated Report contextualises key matters raised by our stakeholders and our responses. We address these further in the sections on governance and remuneration, as well as in our GRI report.

Responsibilities of institutional investors

Principle 17

The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.

Expected outcomes

Good performance (primary)
Ethical culture (secondary)
Effective control (secondary)

Principle 17 is designed for application by institutional investors. Our asset and investment management businesses assess their policies and practices against Principle 17.

King IV recommends as follows in respect of Principle 17 “The governing body should approve the policy that articulates its direction on responsible investment. This policy should provide for the adoption of a recognised responsible investment codes, principles and practices.”

Our asset investment managers – Absa Asset Management Proprietary Limited and Absa Alternative Asset Management Proprietary Limited – have confirmed that their investment activities were guided by policies on responsible investment. Each has responsible investment guidelines in place, the contents of which have been largely informed by the United Nations Principles for Responsible Investment (UN PRI) and the Code for Responsible Investing in South (CRISA), to which the companies are signatories.

Two of their main policies – the Responsible Investing Policy and Proxy Voting Policy and Procedure – guide the application of the CRISA principles.

Environmental, social and governance issues form a critical consideration in deciding whether to vote for or reject matters proposed by management at shareholders’ meetings. Our asset managers recognise this and have established a set of guidelines for their proxy voting responsibilities.


The Proxy Voting Policy and Procedure has detailed guidelines that assist in evaluating good corporate governance and behaviour in investee companies in the following categories:

- Composition of board of directors;
- Ratification of auditors;
- Management and director compensation;
- Anti-takeover mechanisms and related issues;
- Changes to capital structure;

- Mergers and corporate restructuring; and
- Environmental, social and governance matters.

Engagements on environmental, social and governance concerns are undertaken to gain insight into the risk implications to the intrinsic value of the investee company, primarily in three ways – directly with management, through industry meetings, or at annual general meetings.

Absa Multi Management, another of our asset management businesses, requires that all its underlying asset managers to whom it awards mandates must be signatories to the UN PRI and CRISA codes, thereby ensuring that customer investments are managed in accordance with these principles.

 The approach to responsible investing is published on the Absa Investments website <https://www.absainvestmentmanagement.co.za/wealth-and-investment-management/about-us/governance/>

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