2nd Supplement dated 27 November 2019
to the Master Programme Memorandum dated 30 October 2019

ABSA BANK LIMITED

(Incorporated in the Republic of South Africa with limited liability under registration number 1986/004794/06)

USD 1,000,000,000

Master Structured Note Programme

This supplemental programme memorandum (the "**Second Supplement**") is prepared in respect of a master programme memorandum dated 30 October 2019 (the "**Master Programme Memorandum**") in respect of Absa Bank Limited's USD 1,000,000,000 Master Structured Note Programme (the "**Programme**") for the issuance from time to time of unsecured or secured registered or bearer notes ("**Notes**"). Terms defined in the Master Programme Memorandum have the same meaning when used in this Second Supplement. This Second Supplement is supplemental to, and should be read in conjunction with, the Master Programme Memorandum and the supplemental programme memorandum dated 5 November 2019 (the "**First Supplement**").

This Second Supplement has been approved by the Luxembourg Stock Exchange (the "**Lux SE**"). This Second Supplement is available on the Lux SE's website (https://www.bourse.lu/).

With effect from the date of this Second Supplement, the Master Programme Memorandum shall be amended and supplemented in the manner described in this Second Supplement and each reference in the Master Programme Memorandum to "Master Programme Memorandum" shall be read and construed as a reference to the Master Programme Memorandum as amended and supplemented by this Second Supplement.

To the extent that there is any inconsistency between (a) any statement in this Second Supplement or any statement incorporated by reference into the Master Programme Memorandum by this Second Supplement and (b) any other statement in or incorporated by reference in the Master Programme Memorandum, the statements referred to in (a) shall prevail.

Save as disclosed in this Second Supplement there has been no significant new factor, material mistake or inaccuracy relating to the information included in the Master Programme Memorandum.

Dated: **27 November 2019**

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GENERAL INFORMATION

Responsibility Statement

The Issuer certifies the information contained in this Second Supplement is, to the best of its knowledge and belief in accordance with the facts and contains no omission likely to affect its import.

The Issuer accepts full responsibility for the accuracy of the information contained in this Second Supplement. Where information has been sourced from a third party, the Issuer confirms that this information has been accurately reproduced and that no facts have been omitted which would render the reproduced information inaccurate or misleading.

Approvals

The board of directors of the Issuer provided all required approvals for the Master Programme Memorandum and this Second Supplement at a meeting held on 4 November 2019 in Johannesburg (the "**Approvals**"). The Approvals cover all future supplements to the Master Programme Memorandum including this Second Supplement.

AMENDMENT TO DESCRIPTION OF ABSA BANK LIMITED

The following amendment shall be made to the Master Programme Memorandum:

"Section V: Description of Absa Bank Limited" on pages 343 to 409 (inclusive) of the Master Programme Memorandum shall be deleted in its entirety and replaced with "Section V: Description of Absa Bank Limited' as set out in the Appendix to this Second Supplement.

Appendix

Amended Description of Absa Bank Limited

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SECTION V: DESCRIPTION OF ABSA BANK LIMITED

Capitalised terms used in this Section V headed "Description of Absa Bank Limited" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.

1. INTRODUCTION

Overview

Absa Bank Limited ("**Absa Bank**", the "**Issuer**" or the "**Company**"), with preference shares listed on the JSE Limited, is a wholly-owned subsidiary of Absa Group Limited ("**AGL**" or the "**Controlling Company**", together with its subsidiaries, the "**Group**") .

Absa Bank offers a range of retail, business, corporate and investment banking, and wealth management products and services primarily in South Africa and has representative offices in Namibia and Nigeria. Absa Bank (registration number 1986/004794/06) is a public company duly established and registered in South Africa as a bank in accordance with the laws of South Africa (the Companies Act and the Banks Act). Absa Bank's registered office is at 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

AGL is listed on the JSE Limited and is one of Africa's major financial services providers offering personal and business banking, credit cards, corporate and investment banking, wealth and investment management as well as bancassurance.

AGL was expanded through combining Absa Group Limited and Barclays Bank PLC's African operations on 31 July 2013. Reflecting the enlarged group's pan-African focus, the Group's name changed from Absa Group Limited, to Barclays Africa Group Limited on 2 August 2013. On 15 May 2018, AGL's shareholders approved the change of AGL's name from "*Barclays Africa Group Limited*" to "*Absa Group Limited*". The name change to Absa Group Limited was effective 11 July 2018. AGL*'s* operations across Africa are in the process of being rebranded as "*Absa*".

Background and history

The Issuer was formed in April 1991 when UBS Holdings Limited, the holding company of, inter alia, United Building Society Limited (the largest building society in South Africa at the time) and United Bank Limited merged all the assets of the Allied Group Limited, the holding company of, inter alia, Allied Building Society Limited (one of the largest building societies in South Africa at the time) and Allied Bank Limited, and all the assets of Volkskas Group Limited, the holding company of, inter alia, Volkskas Bank Limited (one of the largest commercial banks in South Africa at the time), MLS Bank Limited and Volkskas Motorbank Limited (which later changed its name to Absa Motorbank Limited).

In April 1992, all the assets and liabilities of Bankorp Holdings Limited (formerly Die Trustbank van Afrika until 1 June 1990), the holding company of, inter alia, TrustBank Limited (one of the largest commercial banks in South Africa at that time), Senbank and Bankfin, were taken over by Absa Bank Limited. Volkskas Bank Limited was incorporated under the name Volkspaaren Voorskot Kas (Koöperatief) Beperk on 3 April 1934. On 30 September 1991 all the assets and liabilities of this company were transferred to United Bank Limited. Johannesburg Building Society Limited (incorporated on 3 June 1978) became Allied Building Society Limited which became Alliance (1991) Limited after its assets and liabilities were transferred to Absa Bank Limited.

UBS Holdings Limited (incorporated on 26 November 1986) changed its name to Amalgamated Banks of South Africa Limited. Absa Bank traded as a bank under the names Allied Bank, TrustBank, United Bank and Volkskas Bank with assets exceeding R52 billion (as at March 1991). Amalgamated Banks of South Africa Limited changed its name to Absa Group Limited in 1997. From November 1998, the Group's retail, business, and corporate and investment banking operations in South Africa have traded as Absa Bank Limited.

In early 2016, Barclays PLC announced that it would be selling down its interest in Absa Group Limited (previously Barclays Africa Group Limited) (AGL). The sell-down took place over a period of approximately 18 months (from mid-2016 to late 2017) and the shareholding of Barclays PLC in AGL reduced from 62.3 per cent. to 14.9 per cent. The structure of the Group largely did not change other than the shareholding by Barclays PLC in AGL. This is illustrated in diagram 2 below. The financial contribution by Barclays PLC in respect of the Separation was to Absa Bank (GBP760m, in tranches). The only change in structure was an interim one in terms of which there was an issue of 10 ordinary shares in the issuer to Barclays PLC for a period of approximately 12 months, after which these shares were transferred to AGL. 100 per cent. of the ordinary shares in Absa Bank are accordingly now held by AGL.

Barclays PLC currently holds 14.9% of the shares in Absa Group Limited which in turn holds 100% of the shares in Absa Bank Limited. Barclays PLC has one director (out of 15) on the board of Absa Group. Barclays PLC does not have any nominee on the Board of Absa Bank.

The Issuer has at all times through the Barclays PLC acquisition, sell-down and Separation process been called Absa Bank Limited.

Diagram
1

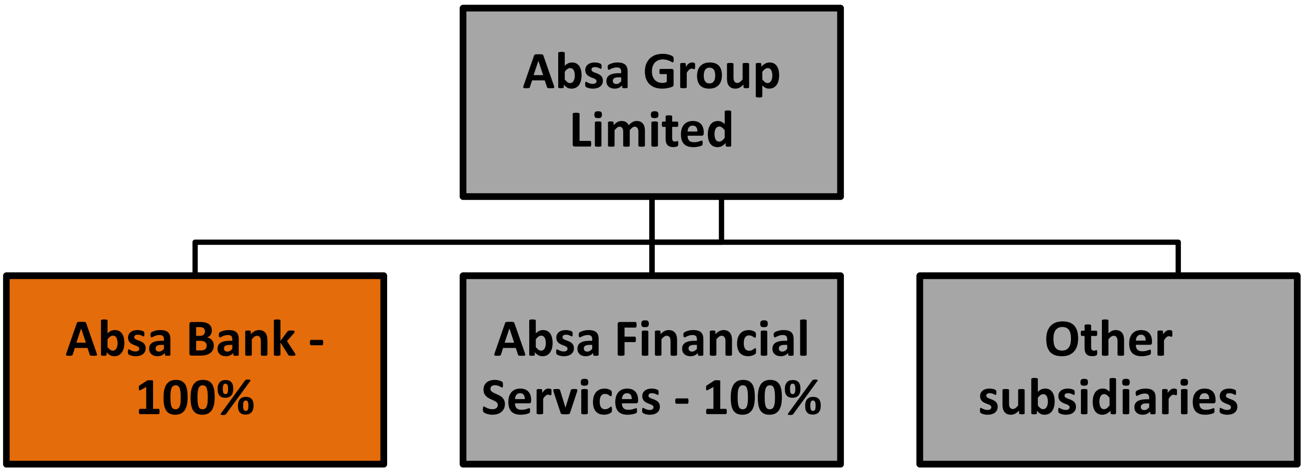
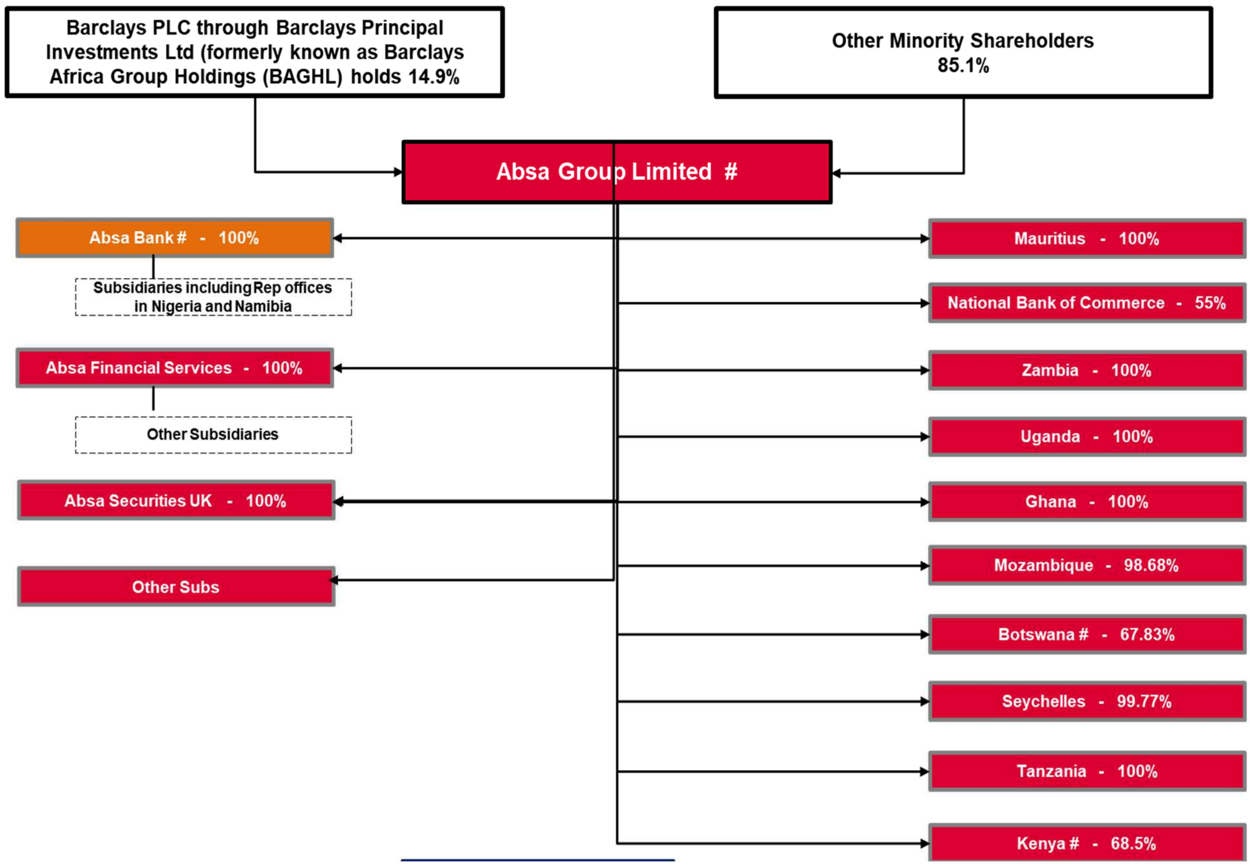

Absa Group Limited
Absa Bank - 100%
Absa Financial Services - 100%
Other subsidiaries

Diagram 2



2. LEGAL STATUS

The Issuer was incorporated on 26 November 1986 under the laws of South Africa and is regulated under the Companies Act and the Banks Act. The Company is a public company.

The Controlling Company and the Issuer's financial year end is currently 31 December of each year.

The annual audited financial statements of the Issuer is drawn up in accordance with International Financial Reporting Standards ("**IFRS**") and the Companies Act.

Company Secretary	Nadine R Drutman
Company Secretary Address	Absa Towers West 15 Troye Street Johannesburg 2001
Registration number	1986/004794/06

Share code	ABSP and ABMN
ISIN code	ZAE000079810
Registered place of business:	Absa Towers West 15 Troye Street Johannesburg 2001

3. **NATURE OF BUSINESS**

Absa Bank is one of South Africa's largest banks. Absa Bank contributes the majority of the Group's headline earnings.

Absa Bank's major businesses and/or divisions are described in more detail below.

The banking businesses work together to provide customers and clients the best offerings in:

- Retail Banking;
- Business Banking; and
- Corporate and Investment Banking ("**CIB**").

Absa Bank works closely with Absa Financial Services (a member of AGL) to offer a range of bancassurance and wealth solutions.

3.1. Retail Banking

Retail Banking South Africa offers a comprehensive suite of retail banking products and services to individual customers and SMME (small, mid and medium enterprises). It caters for the full spectrum of customers, from those needing basic banking services to those requiring sophisticated financial solutions. The focus is on providing a consistently superior experience across each of the channels matched closely to the needs and expectations of each customer segment. Customers are served through an extensive branch and self-service terminal network, electronic and mobile channels, relationship managers as well as call centre agents.

3.1.1. Home Loans – offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.

3.1.2. Vehicle and Asset Finance ("VAF") – offers a comprehensive range of funding solutions for assets such as vehicles, aviation, marine, agricultural equipment, commercial, plant and office equipment as well as vehicle fleet and fleet card management. These solutions are provided to both individual and business customers through the branch network, approved dealerships, preferred suppliers and a specialist sales force.

3.1.3. Card and Payments – offers credit cards and merchant acquiring solutions via a mix of Absa-branded and cobranded offerings including British Airways, Avios and Virgin Money. Included in this portfolio are strategic partnerships with Edcon, which offers in-store cards and Woolworths Financial Services, which offers in-store cards, credit cards, personal loans and short-term insurance products.

3.1.4. Personal Loans – offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.

3.1.5. Transactional and Deposits – offers a full range of transactional banking, savings and investment products, rewards programmes and services through a variety of channels. These include the branch network, digital channels, ATMs, priority suites and call centres.

3.1.6. Other – includes distribution channel costs not recovered from product houses, strategic initiative expenditure and funding costs held centrally for Retail Banking South Africa.

3.2. Business Banking

Business Banking offers debt, deposit and transactional products to enterprise and commercial customers. Business Banking South Africa operates a well-defined coverage model based on specific customer value propositions. These value propositions align to customer needs and range from direct interactions *via* multi-channel interfaces such as electronic banking through to a dedicated relationship-based model. Customers within the enterprise segment, with an annual turnover of up to R20 million, are serviced using a direct coverage model with a predominately branch-based interface. Customers in the commercial segment, with an annual turnover of between R20 million and R500 million, are serviced using a relationship-based model, where dedicated sales and service teams provide customised solutions.

The relationship-based model includes a sector overlay focusing primarily on agriculture, public sector, wholesale, retail and franchising.

3.3. Corporate and Investment Bank

CIB provides innovative solutions to meet clients' needs by delivering specialist investment banking, corporate banking, financing, risk management and advisory solutions. A variety of clients across industry sectors such as corporates, financial institutions and public sector bodies are serviced by combining CIB's product knowledge with regional expertise and extensive, well-established local presence. CIB's goal is to build a sustainable, trustworthy business that helps clients achieve their ambitions with the aim of creating shared growth for clients, colleagues and communities.

Key business areas in CIB

3.3.1. Investment Bank – provides holistic solutions to clients through end-to-end relationship management and origination activities, leveraging the deep segment and sector specialisation within CIB, across the following business areas:

- **Markets** – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;

- **Banking** – structures innovative solutions to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
- **Commercial Property Finance** – specialises in financing commercial, industrial, retail and residential development property (with a focus on affordable housing) across CIB's African footprint as well as cross border financing in other jurisdictions;
- **Infrastructure Investments and Private Equity** – acts as a principal by investing in equity of entities focused on infrastructure development in Sub-Saharan Africa. The private equity business traditionally acted as a principal by investing in unlisted equity exposures. This portfolio continues to be reduced in line with the Group's strategy to exit non-core businesses.

3.3.2. Corporate – provides corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions.

3.4. Other activities

3.4.1. Central operations

In addition to the banking services described above, Absa Bank has various support functions. These divisions focus on assisting business units in achieving their goals and objectives while ensuring continued alignment with Absa Bank's corporate and financial strategies.

3.4.2. Absa Financial Services

Working closely with Absa Financial Services, Absa Bank is able to provide insurance, fiduciary, wealth management and non-banking-related investment products and services to retail, commercial and corporate customers.

4. OWNERSHIP AND CONTROL

As at the Programme Date, Absa Bank is a wholly-owned subsidiary of AGL and has preference shares listed on the JSE Limited.

5. CORPORATE GOVERNANCE

5.1. Absa Group Limited

The AGL board (the "**Board**") is the apex governance forum for the Group. The leadership provided by the Board creates value for our shareholders and benefits for all stakeholders.

The Board actively engages management in setting, approving and overseeing execution of the strategy and related policies. It monitors that management (i) maintains internal controls for assurance of effective and efficient operations, and compliance with laws and regulations; and (ii) does this within an ethical environment.

The Group's Executive Committee is responsible for the execution of Group strategy and day-to-day management of AGL and ABL, and is guided by relevant frameworks, policies and standards, such as the enterprise risk management framework and our code of conduct.

The Executive Committee, and its various committees, report to the AGL and ABL Boards and Board committees in accordance with their respective mandates to ensure the appropriate flow of information from

The Board committees have oversight over Absa Bank and there is formal reporting by the Board committees to the Board of Absa Bank (the "**Absa Board**").

Board committees

Directors' Affairs Committee

The Directors' Affairs Committee supports the Board in corporate governance, Board nominations and related matters. The committee reviews the Group's governance structure, focusing on director succession planning and appropriate skill sets as well as membership of the Group and subsidiary boards and committees to establish and maintain optimal size, independence, tenure, skills, and diversity.

The committee monitors the Group's reputational risk, matters arising from inappropriate conduct and other control failures and the actions taken by management in response, matters pertaining to regulatory engagement and regulatory commitments, progress on the Board/corporate governance objectives, board and committee attendance, and findings and actions from Board and board committee evaluations (including peer review).

Group Audit and Compliance Committee

The Group Audit and Compliance Committee, which includes the Disclosure Committee, supports the Board by overseeing internal controls, compliance, internal and external audits, accounting, and external reporting.

The committee monitors the Group's control environment, impairments in credit portfolios, internal audit plans and audit outcomes, regulatory engagements and compliance plans and matters pertaining to operational risk. The Committee also monitors progress on financial focus areas.

The committee has reviewed the Group's progress on the preparation for IFRS 9, the financial implications of the separation from Barclays Bank PLC (the "**Separation**") and the reporting on a normalised and IFRS basis as a result, the approach to fraud risk management, the stability in the payments and settlements area, and the Group's tax philosophy.

Group Risk and Capital Management Committee

The Group Risk and Capital Management Committee supports the Board in assessing risk, risk appetite, capital and liquidity management.

In particular, the committee reviews principle risk types, execution against risk appetite, the impact of recommended dividends on the Group's capital and liquidity position, market development of total loss-absorbing capacity for globally systemically important banks, cyber risk developments, updates on business continuity management metrics and business programmes; the embedment of the risk data aggregation and reporting framework for Basel Committee on Banking Supervision 239, the structural hedge programme in place for a portion of Absa Bank's liabilities; stress testing for the integrated planning (budgeting) process, and developments with regard to the Basel III Net Stable Funding Ratio.

Group Remuneration Committee

The Group Remuneration Committee supports the Board of Directors in establishing remuneration and incentive arrangements, policy, disclosures, and executive appointments. The committee has focused on improving the link between pay and performance, improving the balance of pay across the organisation; ensuring appropriate and compliant disclosure of remuneration principles, philosophies and outcomes; engaging with investors regarding the Group's remuneration policy and disclosure; managing the implications of European Union's Capital Requirements Directive IV on pay for the Group's executives and material risk takers; and retaining key individuals in the context of the Separation.

The committee reviews remuneration structure, policy, governance and philosophy, performance reviews including the Group Chairman's performance review of the Chief Executive Officer, and the Chief Executive Officer's performance reviews of the Group's Deputy Chief Executive Officer, Financial Director and other Executive Committee members. The committee also reviews proposals for senior hires and terminations, updates from the management's Remuneration Review Panel on risk, compliance and conduct-related incidents, updates on pensions and benefits across the Group, reports on subsidiary entities pertaining to pay and benefits, peer local and international trends in disclosure of executive pay, and reports from external advisers on trends in compensation practices, impact of King IV, and industry approaches.

King IV requires increased disclosure around remuneration, requiring the Group to expand on how it addresses and approaches remuneration throughout the Group. To achieve this the Group must revise its reward/remuneration policy to more comprehensively (i) address the principles of fair and responsible remuneration; (ii) address the approach to remuneration Group-wide; and (iii) incorporate all the elements of remuneration that are offered in the organisation.

The committee approves compensation for all Executive Committee members, the salary mandates for bargaining unit and non-bargaining unit employees, and the remuneration report for inclusion in the integrated report.

Social and Ethics Committee

The Social and Ethics Committee monitors key organisational health indicators including ethics management; talent retention and acquisition; labour turnover; wellness; learning and development reach and spend; employee relations; diversity and inclusion; and conduct and reputation risks; and the Group's activities having regard to any relevant legislation and codes of best practice on matters relating to:

- social and economic development;
- good corporate citizenship;

- ethics;
- sustainable development;
- labour and employment;
- consumer relations;
- stakeholder management;
- transformation;
- the environment; and
- health and safety.

The committee monitors the status of the Group's premises, health and safety and remediation of any issues thereof, initiatives to improve service delivery by the human resources function, customer and client engagement and retention, as well as complaints trends and root cause analysis in specific business areas and corresponding remedial action.

The committee has reviewed regulatory and general developments that could influence conduct risk management, key organisational health indicators such as ethics management, talent attraction and acquisition, employee turnover and wellness, human resource-related process improvements, learning and development, employee relations, diversity and inclusion, disability initiatives, and leadership programmes, employee opinion and culture surveys, customer complaints and other satisfaction metrics, assurance activities performed on conduct and ethics by Internal Audit and Compliance, and advertising approaches and the sponsorship portfolio. The committee also reviews the Group's environmental impact, the mapping of sustainability frameworks, and participation in environmental, social and governance frameworks and related reporting, as well as the promotion of equality in the context of the Employment Equity Act, 1998 the Broad-Based Black Economic Empowerment Act, 2003 and related regulatory landscape. The committee also oversees the execution of the shared growth plan, which focuses on citizenship initiatives and spend, education and skills, community enterprise development and financial inclusion.

Information Technology Committee

The IT Committee assists the Board with effective oversight and governance of technology and information for the Group. King IV distinguishes between governance oversight of (i) the organisation's information assets, and (ii) the technology infrastructure used to generate, process and store that information. The IT Committee's mandate has been updated accordingly.

The committee monitors among others, technology stability, resilience and risk in South Africa and the Rest of Africa, top technology priorities (including customer stability, regulatory commitments, and technological separation from Barclays Bank PLC, technology investment spend, operational stability of the Group's payments systems, core infrastructure and platforms in the Rest of Africa, and progress on the Group's new digital strategy and cyber security strategy, as well as disaster recovery and data centre migration).

Board Finance Committee

The Board Finance Committee assists the Board in approving certain levels of investments and types of transactions within its mandate. The Committee is also mandated by the AGL and Absa boards to consider and approve their dividend declarations within the parameters determined by the boards, and to finalise the profit commentary as it relates to interim and year-end financial results. The committee considers, and recommends to the Board the medium-term plan developed in terms of the Group strategy.

In particular, the committee has assessed, among others, the progress of the property consolidation strategy upgrades throughout the portfolio, the disposal of certain private equity investments, the development of the international operations strategy for securities and payment licences in the context of the Separation, and outsourcing certain IT applications maintenance and development.

Credit Concentration Risk Committee

The Credit Concentration Risk Committee supports the Board in addressing exposures above 10% of the Group's qualifying capital and reserves, portfolio exposures, applicable impairment trends and concentration risks.

The committee monitors levels of wholesale and retail credit and credit risk appetite in all jurisdictions in which the Group operates, key sectors including agriculture (primary and secondary), banking, mining and metals, retail, and public sector, commercial property finance and prime services businesses, the impact of a possible sovereign downgrade in South Africa, forex rate risk, country limits for the Group's Rest of Africa portfolio, as well as stress triggers, stress losses, and mandate and scale.

Models Committee

The Models Committee is the designated committee responsible for approving the Group's material risk models on inception and annually thereafter, in accordance with guidelines set out in the relevant policy and by the SARB and other applicable regulatory requirements.

The committee monitors the governance of models including the embedment of the model risk policy, the results and levels of model validation coverage, and compliance with regulatory standards. The committee approves the Group's regulatory capital, economic capital, impairment and other Group-level material models in accordance with the model risk policy and based on the recommendations of the independent validation unit, as well as the implementation of appropriate post-model adjustments.

Separation Oversight Committee

The Separation Oversight Committee supports the Board by providing oversight and guidance to management on the execution of the Separation from Barclays Bank PLC pursuant to the sell-down.

In the last year, the Separation Oversight Committee considered and supervised, advised or guided on, amongst others:

- the transitional governance framework in terms of the Separation agreement which applies until regulatory deconsolidation;

- the governance structure put in place to manage the Separation to conclusion;
- the critical path to Separation with appropriate sequencing, dependencies, capabilities, capacity and migration management;
- execution updates including progress, scope management and the impact of regulatory and stability changes;
- prioritising and managing strategic investments as a single book of work across the business;
- the status of service management by Barclays Bank PLC under the three year transitional service agreement (comprising approximately 129 material service schedules);
- the regulatory engagements with the SARB and the Prudential Regulatory Authority as part of the process for Barclays Bank PLC to achieve regulatory de-consolidation, and with the regulators for the Rest of Africa countries;
- the manner in which the necessary capital support is provided to each of the Rest of Africa country banks to enable the required Separation investments to be made; and
- the overall financial impact and implications of the Separation and the projected Separation spend for 2018 and beyond.

The committee noted the risk management that is being applied throughout the Separation Programme with appropriate risk assessments and independent assurance.

5.2. Absa Bank Limited

Directors of the Absa Bank Board

The abridged curricula vitae of the board of directors of the Issuer are set out below, accurate as at the date hereof.

Absa Bank Board of Directors

Name of Director	**Age (at the end of December 2018) and business address**	**Experience and Expertise**
Wendy Elizabeth Lucas-Bull (*Independent Non-executive*	65 Absa Towers West	Ms Lucas-Bull joined the AGL and Absa Bank Boards as an independent director and Chairman in 2013. She is also Chairman of the Absa Financial Services board.

Director and Chairman)	15 Troye Street Johannesburg 2001	Ms Lucas-Bull is the Chairman of the AGL Directors' Affairs Committee and the Separation Oversight Committee, and she is also a member of the AGL Board Finance, Group Risk and Capital Management, Group Remuneration, Credit Concentration Risk, Social and Ethics and Information Technology Committees. She is a permanent attendee of the AGL Group Audit and Compliance Committee. Ms Lucas-Bull is one of the founders of the Peotona Group. She was previously chief executive of FirstRand Limited's retail businesses and prior to that an executive director of Rand Merchant Bank Holdings. Former non-executive directorships include those at Barclays PLC, Anglo American Platinum Limited, the Development Bank of Southern Africa, Alexander Forbes, Eskom, Nedbank, Telkom, Aveng (deputy chairman), Lafarge Industries (chairman), the South African Financial Markets Advisory Board, Discovery Holdings, Dimension Data PLC and the Momentum Group. She was also a member of the President's Advisory Council on Black Economic Empowerment. Qualifications: BSc.
Jason Patrick Quinn (*Executive Director and Group Finance Director*)	54 Absa Towers West 15 Troye Street Johannesburg 2001	Mr Quinn is the Group Financial Director. He joined the AGL and Absa Bank Boards and Executive Committee in September 2016. He is the Chairman of the Group Models Committee and a member of the Group Risk and Capital Management, Credit Concentration Risk, Information Technology and Separation Oversight Committees. Before joining the Group, he was a partner at Ernst & Young Inc. Mr Quinn joined the Group in 2008 as the Financial Controller and was appointed as the Head of Finance in 2014 after holding several senior finance positions.

		Mr Quinn is a Director of Absa Financial Services Limited, Woolworths Financial Services (Pty) Limited and is an employer appointed Trustee of the Absa Pension Fund. Qualifications: BAcc (Hons); CA (SA).
Colin Beggs (*Independent Non-executive Director*)	70 Absa Towers West 15 Troye Street Johannesburg 2001	Mr Beggs joined the AGL and Absa Bank Boards as an independent director in 2010. He is the Chairman of the Group Audit and Compliance Committee and is a member of the Group Risk and Capital Management, Directors' Affairs, Separation Oversight and Board Finance Committees. Mr Beggs is the former senior partner and chief executive officer of PricewaterhouseCoopers (PwC) in Southern Africa and retired from that position in June 2009. He was also the chairman of the SAICA board in 2002/3 and was a member of the Accounting Practices Board. He is also a non-executive director of Sasol Limited, SAB Zenzele Holdings Limited and the Ethics Institute of South Africa. Qualifications: BCom (Hons), CA (SA).
Mohamed Junaid Husain (*Independent Non-executive Director*)	58 Absa Towers West 15 Troye Street Johannesburg 2001	Mr Husain joined the AGL and Absa Bank Boards as an independent director in 2008. He was appointed as the Lead Independent Director of both the AGL and Absa Bank boards with effect from 1 June 2018. He is the Chairman of the Social and Ethics Committee and is a member of the Group Audit and Compliance, Group Remuneration, Directors' Affairs and Separation Oversight Committees. Mr Husain has been an attorney for 30 years, during which time he has represented a diverse range of state, institutional and individual clients in all areas of corporate practice. He is a past president of the London-based Commonwealth Lawyers Association and of the Law Society of the Northern Provinces. He is a past chairman of the Attorneys Insurance Indemnity Fund. Mr

		Husain was a founder member and councillor of the Law Society of South Africa and he currently serves on its audit and risk committees and chairs the remuneration committee. He has served as Judge of the High Court of South Africa. Mr Husain serves as director of Knowles Husain Lindsay Incorporated and KLH Investments Proprietary Limited and is the non-executive chairman of Andulela Investment Holdings Limited. Qualifications: BProc.
René van Wyk (*Chief Executive Officer*)	62 Absa Towers West 15 Troye Street Johannesburg 2001	Mr van Wyk joined the AGL and Absa Bank Boards as an independent director in 2017. He was the Chairman of the Group Risk and Capital Management Committee (GRCMC) and Group Credit Risk Committee (GCRC) and a member of the Director's Affairs Committee, Separation Oversight Committee and Group Audit and Compliance Committee (GACC). Mr van Wyk became the Chief Executive of Absa Bank and Absa Group on 1 March 2019, for an interim period. Mr van Wyk is the former Registrar of Banks and Head of Banking Supervision of the South African Reserve Bank (SARB) and retired from the Mr van Wyk was with the Nedbank Group of companies (from 1993 to 2011), where he occupied various positions, in the risk field notably executive director responsible for risk at Nedcor Investment Bank, and CEO of Imperial Bank (a subsidiary of Nedbank). In his earlier years, he joined KPMG and rose to become partner in the financial services group. Qualifications: BCom; BCompt (Hons); CA (SA).
Alex Darko	66	Alex joined the board as an independent non-executive director in 2014 and is a member of the Group Audit and Compliance Committee

(*Independent Non-executive Director*)	Absa Towers West 15 Troye Street Johannesburg 2001	(GACC), Directors' Affairs Committee (DAC), Separation Oversight Committee (SC), chairman of the Group Remuneration Committee (RemCo) and of the Information Technology Committee (ITC). Alex was appointed as an independent non-executive director of Absa Bank Limited with effect from 15 May 2019. Alex held a number of senior positions at Dun & Bradstreet, including director of UK shared services, director of finance at Dun & Bradstreet Europe Ltd and head of accounting re-engineering. He later moved back to Ghana and worked for Ashanti Goldfields in a number of senior roles. Alex was vice-president, knowledge and information at AngloGold Ashanti from 2005 to 2010. Alex is a director at Nkululeko Leadership Consulting where he advises organisations on leadership, culture, strategy and change management. He is also a non-executive director of Reunert Limited. Qualifications: MSc (MIS); Fellow of Chartered Certified Accountants (FCCA).
Mark Merson (*Independent Non-executive Director*)	50 Absa Towers West 15 Troye Street Johannesburg 2001	Mark joined the board in January 2014 as a non-executive director and became an independent non-executive director with effect from October 2017. With effect from 1 February 2019, Mark is the chairman of the Group Risk and Capital Management Committee (GRCMC), Group Credit Risk Committee (GCRC) and the Board Finance Committee (BFC). Mark was appointed as an independent non-executive director of Absa Bank Limited with effect from 15 May 2019. Mark is a graduate of Oxford University, a chartered accountant and was previously a partner in the financial services consulting practice of Arthur Andersen and Deloitte. From 2003 through 2016, he served Barclays PLC

		in a variety of roles including group financial controller, head of investor relations, chief financial officer for the Corporate and Investment Bank and latterly deputy group finance director. Mark is also a director of Veritum Partners Limited, which offers advice on market interaction to European banks. Mark is also Chairman of Absa Securities UK Limited. Qualifications: ACA; MA (Hons).

All members of the Absa Bank board of directors are members of the AGL Board.

6. OTHER CORPORATE GOVERNANCE MATTERS

6.1. King IV

The King Report on Corporate Governance for South Africa 2016TM ("**King IV**" or the "**Code**"), the main governance code applicable to companies in South Africa, was launched by the Institute of Directors in Southern Africa on 1 November 2016 as a set of voluntary principles and leading practices with an "apply and explain" policy. The principles and practices of the Code are to be applied to the extent required and beneficial to a company (the proportionality principle), taking into consideration a number of factors such as the size of turnover and workforce, resources, complexity and nature of business of an entity.

Absa Bank is the largest wholly-owned subsidiary (in terms of assets and contribution to revenue) of the Group. The seven directors of Absa Bank are also directors on the AGL Board and the two boards hold certain joint meetings. The Absa Board relies on the committees of the AGL Board in the discharge of its duties and responsibilities. Absa Board is the focal point of the Company's corporate governance. The Board Charter sets out the practices for implementing the corporate governance provisions set out in the Company's Memorandum of Incorporation (MoI), King IV, the Companies Act No. 71 of 2008 (as amended) (the "**Companies Act**"), the Banks Act No. 94 of 1990 (as amended) (the "**Banks Act**"), the Financial Sector Regulation Act No.

9 of 2017, other good governance practices and the governance principles determined by the Board from time to time.

The Group board monitors the overall governance practices and application of King IV by the Group on an annual basis with disclosures thereof in the Group's Integrated Report. Absa Bank's application of King IV and the disclosures as set out in this document should be read in conjunction with Absa Group's King IV application disclosure available at www.absa.africa which supplements the disclosures of the Group's governance practices in the Integrated Report, also available on the website.

A high level analysis of the application by Absa Bank of each principle of King IV is set out below with the expected outcomes ranked as 'primary' or 'secondary' depending on the degree of impact on governance of applying the practices under the principle.

All Principles are complied with. There are areas within certain Principles that require further refinement and that are work-in progress. These include Ethical conduct which is dealt with as part of the work on Culture; Stakeholder relationships (for which a policy has been approved); Fair and Responsible remuneration which is an ongoing focus of the Group Remuneration Committee; Combined Assurance which involves the streamlining of all assurance activities to ensure appropriate coverage of all areas of risk without duplication; and the Group Governance Framework which involves obtaining the views of a number of internal stakeholders (including subsidiary boards) in order to ensure alignment in regard to the draft content thereof.

Leadership and Organisational Ethics	
Principle 1 The governing body should lead ethically and effectively.	**Absa Bank's Practices** The Board is committed to the highest standards of corporate governance and in this regard the directors collectively and individually execute their duties and responsibilities in accordance with the requirements and standards of
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)	behaviour of relevant regulation and legislation, the Company's Memorandum of Incorporation (mod) and the Board Charter. The directors are also committed to and adhere to the ethical standards of behaviour stipulated by the Group's Code of Conduct and related policies. 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 actual or potential conflicts. A director's conduct is also assessed during peer reviews and the board takes the outcomes into account in proposing directors for re-election by the shareholder. The Board, in conjunction with the Group's board, and through the Group's Social and Ethics Committee, is responsible for overseeing ethics and ethical conduct in the Company. The Social and Ethics Committee monitors and evaluates management's programmes aimed at embedding an ethical culture among employees.

<table>
<tr><th colspan="2">Responsible Corporate Citizenship and Regulatory Compliance</th></tr>
<tr><td>Principle 3

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

Expected Outcomes:
• Ethical culture (primary)
• Legitimacy (primary)
• Good performance (secondary)</td>
<td rowspan="2">Absa Bank’s Practices

Abba’s corporate citizenship and regulatory compliance are governed in accordance with the framework set by the Group’s board. The Group board, through the Social and Ethics Committee, approves policies and strategies, and monitors and evaluates programmes that strengthen and maintain the Group’s standing as a good corporate citizenship.

The Group’s Shared Growth philosophy guides Abba Bank’s corporate citizenship programmes which leverage the Company’s assets and expertise to address the societal challenges which the Company can most positively impact. Collaboration is key to the Company’s approach, and the Company work with like- minded stakeholders to implement mutually beneficial solutions in supporting education and skills development, and to invest in enterprise development.</td></tr>
<tr><td>Principle 13

The governing body should govern compliance with 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)
• Effective control (secondary)
• Good performance (secondary)</td></tr>
</table>

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.	**Abba Bank's Practices** The Board is responsible for creating and delivering sustainable value for the shareholder by overseeing the management of the business. The Board (i) approves the Company'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. In December 2017, the Group developed a longer-term strategy, and the relationship between strategy and aspects of the triple context (the combined context of the economy, society and the environment in which we operate) was debated. In particular, an operating environment analysis, a culture review, and employees' active participation informed the final strategy that the Board approved.
Expected Outcomes: • Good performance (primary) • Effective Control (secondary)	
Reporting and Assurance	
Principle 5 The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the	**Absa Bank's Practices** The Company's primary reports are the interim and annual financial statements, and the Pillar 3 risk and capital management reports

organisation's performance and its short, medium and long-term prospects.	disclosed on the corporate website covers Absa Bank. The Company's business activities are disclosed in the Group's Integrated Report. The Group's Audit and Compliance Committee overseas assurance services and the effectiveness of the Company's control environment. The Board is ultimately responsible for the integrity of the reports and approves the financial statements.
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. **Expected Outcomes:** • Effective control (primary) • Good performance (primary) • Ethical culture (secondary) • Legitimacy (secondary)	
Board's primary role and responsibility	
Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation.	**Absa Bank's Practices** The Board is the focal point and custodian of the Company's corporate governance as set out in the MoI and Board Charter as well as

Expected Outcomes • Effective control (primary) • Good performance (primary)	the Group's governance principles determined by the Group Board and contained in various policies and standards. The Board Charter is reviewed annually to ensure it remains abreast with regulatory changes and developments in corporate governance.
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 Outcomes** • Good performance (primary)	**Absa Bank's Practices** The Company has a unitary board which currently comprises seven directors, five of whom are independent non-executive directors. The Group's Independent Chairman also chairs the Board. The chairs of all key Group committees serve on the Absa Bank Board. One-third of the directors retire by rotation annually at the annual general meeting with retiring directors standing for re-election, if eligible. When appointing new directors the board considers a range of factors including educational background, personal attributes, professional expertise, industry knowledge, gender, and ethnicity so as to enhance the collective skills of the

	Board. The Group Directors Affairs Committee (AC) assists in identifying and recommending candidates and facilitating the formal and transparent appointment process as set out in the Board Charter. New directors receive induction training tailor-made to their needs to facilitate their understanding of the Company's business and optimise their contribution to the Board's deliberations.
Delegation to Management and Committees	
Principle 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, 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. **Expected Outcomes** • Effective control (primary) • Good performance (primary)	**Absa Bank's Practices** The shareholder/s delegate authority to the Board through the Company's MoI and shareholder resolutions passed at the shareholder's meetings. The Board remains ultimately responsibility for any delegated approvals made by committees on its behalf. The Board currently relies on the Absa Group Board's committees to assist in discharging its oversight duties and responsibilities. The following are the current committees: • Directors Affairs Committee • Group Audit and Compliance Committee

	• Group Risk and Capital Management Committee • Group Remuneration Committee • Social and Ethics Committee • Information Technology Committee • Credit Concentration Risk Committee • Board Finance Committee • Models Committee • Separation Oversight Committee (which is a temporary committee established to oversee the separation of the Absa Group from Barclays PLC) In executing its oversight responsibilities the Board regularly interacts with the Group Chief Executive Officer, Financial Director and other members of the Group Executive Committee who are executives of the Company.
Board and committee performance evaluation	
Principle 9 The governing body should ensure that the evaluation of its own performance and that of its	**Absa Bank's Practices** The effectiveness of the Board and performance of individual directors, the Chairman and corporate

committees, its chair and its individual members, support continued improvement in its performance and effectiveness. **Expected Outcomes** • Good performance (primary)	governance processes and procedures are assessed biennially (previously annually), against set criteria. Matters arising including areas requiring improvement and the remedial plans are presented to the Board. Remediation is monitored by the DAC until the next evaluation. The Chairman engages with individual directors on the outcomes of the peer reviews to address the areas for development or those of concern. The next review (to be independently facilitated) will be in respect of the 2018 financial year and will be completed in the first quarter of 2019.
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)	**Absa Bank's Practices** The Board oversees the Company's risk management within the framework of the Group's enterprise risk management framework (incorporating the principal and key risks). The Group Risk and Capital Management Committee assists the Board with the governance and oversight of risk, capital and liquidity management, including approving the Company's risk appetite.

	Other aspects of the Company's risks are monitored by committees as relevant to their mandates. Executive management of the Company is responsible for embedding risk in the organisation by ensuring that employees receive the necessary training to be able to identify, mitigate, manage and, when necessary escalate actual or potential risks within their work environment. The Company publishes comprehensive risk management reports on the Group's website.
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:** • Effective control (primary)	**Absa Bank's Practices** The Group Information Technology Committee has overall oversight responsibility for information governance in the Group as detailed in the Absa Group's King IV disclosure and the Integrated Report. The Group Audit and Compliance and Group Risk and Capital Management committees oversee selected components of the Company's IT governance. Executive management is responsible for the day-to-day

	responsibility of the IT governance framework.
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.	**Absa Bank's Practices** The Group Remuneration Committee assists the Group Board in overseeing group-wide strategic remuneration matters. Remuneration practices of the Company are governed within the Group's overall remuneration framework. The Group's remuneration principles and practices are designed to ensure remuneration is competitive, fair, incentivises performance, assists in retaining talent, reflects regulatory requirements and aligns with the Group's conduct and risk expectations.
Expected Outcomes • Ethical culture (primary) • Good performance (primary) • Legitimacy (primary) • Effective control (secondary)	
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.	**Absa Bank's Practices** The Company's approach to stakeholder relationships is guided by the decentralised stakeholder management approach approved by the Group Board. The Social and Ethics Committee is responsible for overseeing

Expected Outcomes: • Legitimacy (primary) • Good performance (secondary)	stakeholder governance in the Group. A comprehensive disclosure on the Group's Stakeholder management and engagement approach and activities is included in the Group's King IV application register and Integrated Report.

7. **RISKS**

<u>Risks Relating to the Issuer</u>

The investments, business, profitability and results of operations of the Issuer may be adversely affected as a result of economic or business conditions

South African macroeconomic conditions

The Group's operations are predominantly concentrated in South Africa, with the majority of its revenues deriving from operations in South Africa. The Issuer is therefore highly exposed to South African macroeconomic conditions and, as a result of their impact on the South African economy, global economic conditions. Any material deterioration in global or South African macroeconomic conditions could lead to a reduction in business activity, higher impairment charges, increased funding costs and reduced profitability and revenues.

South African conditions specific to the banking sector

The South African banking sector remains well capitalised, funded, regulated and managed. The South African financial sector is widely regarded as one of the country's key pillars of economic strength. The banking sector is, however, highly exposed to South African macroeconomic conditions and will be impacted by negative macroeconomic developments.

Although household and corporate affordability conditions are currently benefiting from historically lower inflation and low interest rates, a marked slowdown in foreign capital flows may reduce the value of the Rand and lead to higher interest rates which, in turn, is likely to have a significant impact on household and corporate affordability conditions. A deterioration in the strength and organisation of the country's institutions, especially the independence of the SARB and policy conduct at the National Treasury of South Africa (the "**National Treasury**"), can also have a negative impact on the banking sector.

The Issuer's financial performance has been and is likely to remain linked to the performance of the South African economy.

Any deterioration in economic or business conditions, in policy predictability, in political and/or security stability and in social conditions in South Africa or the other countries in which the Issuer operates, could materially adversely affect the Issuer's borrowers and contractual counterparties which, in turn, could have a material adverse impact on the Issuer's business, results, financial condition or prospects.

There are a number of risks inherent in the banking industry which may impact the performance of the Issuer

The Issuer, in common with other banks in South Africa and elsewhere, is exposed to a variety of risks arising in the ordinary course of its business, the most significant of which are credit risk, credit concentration risk, market risk, liquidity risk and operational risk, with credit risk constituting the largest risk.

Whilst the Issuer believes that it has implemented appropriate standards, policies, systems and processes to control and mitigate these risks, investors should note that any failure to manage these risks adequately could have a material adverse effect on the financial condition and reputation of the Issuer.

Credit Risk

The Issuer's businesses are subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from counterparties. Changes in the credit quality of the Issuer's borrowers and counterparties or arising from systemic risk in the financial systems could reduce the value of the Issuer's assets, and require increased provisions for bad and doubtful debts. In addition, changes in economic conditions may result in deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default.

Credit Concentration Risk

Credit concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. Due to the Issuer's position and role in the South African economy, natural concentrations exist in areas where it is largely unavoidable, namely:

- Private household clients, and specifically the home loans asset class, due to the Issuer's position as a major retail bank in the South African market;
- Sovereign exposure that is largely due to the Issuer's liquid asset portfolio holdings;
- South Africa geographic exposure due to the Issuer's being headquartered in South Africa; and
- Banks due to the Issuer's funding and hedging activities.

Market Risk

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, which is caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables. The Issuer's key market risks are trading book market risk, interest rate risk in the banking book, equity risk in the banking book and foreign currency risk.

Trading book market risk is represented by financial instruments, including commodities, held in the Issuer's trading book arising out of normal global market trading activity. Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held in the banking book, whether caused by a deterioration in the underlying operating asset performance, NAV, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

The Issuer's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect on the Issuer's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

Although the Issuer has implemented risk management methods, including stress testing, to seek to mitigate and control these and other market risks to which it is exposed and these exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions.

Liquidity Risk

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, wholesale and overnight funding), credit rating downgrades or market-wide stress scenarios such as market dislocation and major disasters. During the height of the financial crisis in 2008, wholesale funding providers were unwilling to lend to banks and this had a material adverse effect on global banks' ability to raise funding in both the public and private markets. This resulted in severe liquidity problems for financial institutions which forced governments and central banks to provide unprecedented financial assistance to enable financial markets to continue to operate. Although financial markets have stabilised considerably since then, they remain subject to periods of volatility. In addition, although funding spreads have tightened substantially since 2012 reflecting additional liquidity provided to the market by central banks and more stable financial markets, accommodative monetary policies may not continue.

An inability on the Issuer's part to access funds or to access the markets from which the Issuer raises funds may lead to the Issuer being unable to meet its obligations as they fall due, which in turn could have a material adverse impact on the Issuer's reputation, liquidity positions, solvency position, business, results, or prospects. The underlying operations of the Issuer and the rest of the Group takes deposits with maturities which are contractually shorter than loans made by the Issuer. This exposes the Issuer to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains.

Additionally, the Issuer's ability to raise or access funds may be impaired by factors that are not specific to the Issuer, such as general market conditions, severe disruption of the financial markets or negative views about the prospects for the Issuer, or the industries or regions in which the Issuer operates. In addition, the Issuer's borrowing costs and access to funds may be adversely affected by any credit rating downgrade. The Issuer has developed and implemented risk management policies, procedures and processes designed to reduce this risk through proactive monitoring, management and reporting of the Issuer's liquidity risk position, however there is no assurance that such measures will adequately address all liquidity risks that the Issuer may face.

The Issuer is reliant on both retail deposits and wholesale funding. Although the Issuer believes that its level of access to domestic and international inter-bank and capital markets and its prudent liquidity risk management will continue to allow the Issuer to meet its short-term and long-term liquidity needs, any severe liquidity stress events could have a material adverse impact on the Issuer's liquidity and solvency position results or prospects. During a liquidity stress event the Issuer is likely to obtain additional sources of funds at an increased cost which could adversely affect the financial position of the Issuer.

Operational Risk

Similar to other financial institutions, the Issuer is susceptible to direct or indirect loss resulting from human errors/failures, inadequate or failed internal processes, systems or external events. The Issuer is also subject, from time to time, to service interruptions of third party services such as telecommunications, which are beyond the Issuer's control. Such interruptions may result in interruption to services to the Issuer's branches and/or impact customer service. Given the Issuer's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for any bank to detect quickly or at all. While the Issuer maintains a system of controls designed to monitor and control operational risk, there can be no assurance that the Issuer will not suffer losses from such risks. Losses from the failure of the Issuer's system of internal controls to discover and rectify such matters could have a material adverse impact on the Issuer's business, results, financial condition or prospects.

Terrorist acts, and other acts of war or hostility and responses to those acts, may create economic and political uncertainties, which could have a negative impact on the Issuer's markets, and international economic conditions generally, and more specifically on the Issuer's business and results of operations in ways that cannot be predicted.

The Issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures

The Group has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, market, liquidity, interest rate and operational risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Issuer's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than indicated by historical measures. Other risk management methods depend upon evaluation of information regarding the markets in which the Issuer operates, its clients or other matters that are publicly available or otherwise accessible by the Issuer. This information may not be accurate in all cases, complete, up-to-date or properly evaluated. Any failure arising out of the Issuer's risk management techniques may have an adverse effect on its results of operations and financial condition.

Risk Management

The Group maintains an active approach towards managing both current and emerging risk through the continued operating effectiveness of its Board approved Enterprise Risk Management Framework ("**ERMF**"). The ERMF provides an integrated risk management framework designed to meet the challenges of the changing risk environment and to ensure that the Group's business growth plans are properly supported by effective risk management. This approach is underpinned by:

- a robust and aligned governance structure at a Group, legal entity and business cluster level;
- well defined material risk categories known as principal risks;

- a three-lines-of-defence model, with clear accountability for managing, overseeing and independently assuring risks;
- comprehensive processes to evaluate, respond to, and monitor risks; and
- a sound architecture that sets out the appropriate risk practices, tools, techniques and organisational arrangements.

7.1.1.1. Risk Management Objectives

All levels within the Bank, from the Board and executive level committees down to the business unit managers and their risk specialists are responsible for risk management. A strong risk awareness and accountability culture is central to the effective risk management. Risk management decisions are enacted at the most appropriate level, in line with business objectives and subject to robust and effective review as well as challenge processes. Strategic business decisions are taken in accordance with a Board-approved risk appetite with the executive and risk committees closely monitoring risk profiles against this appetite.

ERMF

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing appropriate risk practices throughout the Group. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It ensures that appropriate responses are in place to protect the Bank and its stakeholders.

The ERMF sets out the principal risks, and assigns clear ownership and accountability for these risks. The ERMF defines credit, market, treasury and capital, insurance, operational, model, conduct, reputation and legal risks as principle risks in recognition of their significance to the Group's strategic ambitions.

Credit risk, market risk and treasury and capital risk are collectively known as "**financial principal risks**". The remaining risks are referred to as "**non-financial principal risks**" (together with the financial principal risks, the "**principal risks**").

Individual events may entail more than one principal risk. For example, internal fraud by a trader may expose the Bank to operational and market risks as well as many aspects of conduct risk.

This is not an exhaustive list of risks to which the Bank is subject. For example, the Bank is also subject to political and regulatory risks. While these may be very consequential, and assessed from time to time in the planning and decision making process, they are not considered principal risks. These other risks are, however, subject to ERMF framework and oversight by Risk Management.

The Group's Risk and Capital Management Committee periodically reviews the list of principal risks to consider if new risks have emerged that should be included in the framework.

Risk Process: Evaluate-respond-monitor

A structured, practical set of three steps to manage risk: Evaluate, respond and monitor (the E-R-M process). The process enables management to identify and assess risks, determine the appropriate response, and then monitor the effectiveness of the risk response and any changes to the risk profile. This three step risk management process:

- Can be applied to every objective at every level;
- Is embedded into the business decision-making process;
- Guides the response to changes in the external or internal environment; and
- Involves all staff and all three lines of defence.

Risk Architecture

The ERMF sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It ensures that appropriate responses are in place to protect the Bank and its stakeholders. The following tools and techniques are key in the risk architecture:

- **Risk culture**: The code of conduct outlines the values and behaviours which govern the way of working. It constitutes a reference point covering all aspects of employees' working relationships, specifically with other employees, customers and clients, governments and regulators, business partners, suppliers, competitors and the broader community. The objective of the code of conduct is to define the way the Bank thinks, works and acts to ensure it delivers against its purpose of helping people to achieve their ambitions – in the right way. The code of conduct sets out the ethical and professional attitudes and behaviours expected of the Bank and its employees.

- **Three lines of defence**: A 'three lines of defence' model is applied to govern risk across all segments and functions. The ERMF assigns specific responsibilities to each line of defence:

    1. **First line**: process and control owners in customer and client-facing business segments and select functions. They are responsible for managing risk and control in their processes on an end-to-end basis;

    2. **Second line**: independent risk, compliance, legal and control functions which formulate the policies and standards for managing risk and control and ensure, through reviews, that the first line meets the requirements of the policies and standards; and

    3. **Third line**: internal and external audit functions that confirm, through control testing and other reviews, that the first and second lines execute their responsibilities in an effective and consistent manner.

- **Governance**: The Absa Board is supported by a number of committees at Board, executive, and business level.

- **Combined assurance**: A combined assurance model is applied and requires co-ordinated activity across the three lines of defence for effective combined assurance. The objective of combined assurance is to optimise overall assurance provided to the executive and Board in respect of the risk and control environment. The Bank seeks to have a greater level of process automation and a higher proportion of preventative controls, wherever possible. The combined assurance strategy is a more risk-based approach, across those areas that are most material to the enterprise.

- **Human Capital**: Sustained focus on employees, as a differentiating asset, has enabled the Bank to accelerate progress. Central to this is leadership continuity, critical skills retention, and ability to attract and engage quality employees. Significant investment in employee development and strengthening the employer brand is being made. This includes building the leadership and managerial depth to underpin future ambitions.

- **Data**: Internal and external data is utilised in meeting regulatory requirements and the management of risk. Selected data and analytics partnerships with third parties are entered into to enhance and heighten understanding of customers and clients. Third parties may include public and private sector corporate clients, bureaus and other data providers. Internal data is owned and managed by the respective business units with regular assessment of data quality via their respective risk governance structures. All key datasets are subject to the requirements of data policies and standards.

- **Technology**: Technology is a building block for risk management practices, and to this end solutions are focussed on:

    - Data collection and storage;
    - Risk analysis and modelling;
    - Risk assessment, monitoring and control; and
    - Risk reporting and communication

Principal Risks

The Board-approved ERMF sets out the scope of the risks faced, and creates clear ownership and accountability for risks. The ERMF covers the nine principal risks (as detailed below).

Principal Risk		**Responsible Parties**
Financial Principal Risks	**Credit Risk** Credit risk is the risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.	**Chief Risk Officer (through the Chief Credit Officer)**
	Market Risk Market risk is the risk that the earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market variables.	**Chief Risk Officer (through the Head of Market and Funding Risk)**
	Treasury & Capital Risk Treasury and capital risk is the risk that the Bank is unable to achieve its business	**Chief Risk Officer (through the Head of Market and Funding Risk)**

Principal Risk		Responsible Parties
	plans as a result of capital and liquidity shortfalls.	
	Insurance Risk The risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing.	**Chief Risk Officer (through the Chief Risk Officer, WIMI)**
Non-Financial Principal Risks	**Operational Risk**	
	The risk of direct and indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events.	**Chief Risk Officer (through the Head of Operational Risk)**
	Model Risk The risk of potential adverse consequences from financial assessments or decisions based on incorrect or misused	**Chief Risk Officer (through the Head of Model Risk)**

Principal Risk		Responsible Parties
	model outputs and reports.	
	Conduct Risk The risk of detriment to customers, clients, market integrity, effective competition or the Bank from the inappropriate supply of financial services, Including instances of wilful/negligent misconduct and the failure to meet regulatory requirements.	**Chief Compliance Officer**
	Reputation Risk The risk that an action, transaction, investment or event will reduce trust in the Bank's integrity and competence by clients, counterparties, investors, regulators, employees or the public.	**Chief Compliance Officer**
	Legal Risk The risk of loss or imposition of penalties,	**General Counsel**

Principal Risk		Responsible Parties
	damages or fines from the failure of the Bank to meet its legal obligations Including regulatory or contractual requirements.	

The Group Chief Risk Officer is accountable for ensuring that frameworks, policies and associated standards are developed and implemented for each of the financial principal risks, operational risk and model risk and that they are subject to limits, monitored, reported on and escalated as required. The Chief Compliance Officer is likewise accountable for conduct risk and reputation risk, and the Group General Counsel for legal risk.

8. FINANCIAL PERFORMANCE

Potential investors are hereby referred to the Issuer's audited consolidated annual financial statements, incorporated herein by reference and available at www.absa.co.za and/or at the Issuer's Specified Office as set out at the end of this Master Programme Memorandum, for a summary of the Issuer's financial performance.