



FIRSTRAND

KING IV IMPLEMENTATION

The board of directors implements the highest standards of corporate governance at all operations. The board understands and values long-term and ethical client relationships, and has well established governance processes for ensuring a balance between achieving business growth and meeting the reasonable expectations of its stakeholders.

FirstRand endorses the holistic approach to corporate governance and the mindful application of the principles contained in King IV, as well as the corporate governance principles for banks by the Basel Committee on Banking Supervision.

The board has satisfied itself that FirstRand has complied with these principles in all material respects throughout the year.

The checklist below is a broad summary of how the principles of King IV have been applied. The full governance report is contained in the FirstRand annual integrated report.

PRINCIPLE

Governance outcome: ethical culture

Ethical leadership

The governing body should lead ethically and effectively.

The directors hold one another accountable for decision-making and acting in a way that displays the ethical characteristics of integrity, competence, responsibility, accountability, fairness and transparency, which form the basis of the FirstRand director competency framework and director performance assessments. The chairman is tasked to monitor this as part of his duties.

Directors sign the director's pledge annually, acknowledging that they are acquainted with both the form and substance of the FirstRand code of ethics.

The board and its committees continually demonstrate ethical and effective leadership and promote the group's collective vision, purpose, values, culture and business behaviours.

Organisation values, ethics and culture

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

FirstRand has a code of conduct in place which is applicable to employees and incorporated as part of the contractual arrangements with parties in the supply chain.

The board oversees the establishment and monitoring of the code of ethics to promote high ethical behaviour. The board is supported by the group ethics office, which acts as the formal custodian of the FirstRand code of ethics. The group ethics office has representatives in every business of the group.

FirstRand's philosophy is underpinned by the belief in the following values and principles:

- respecting and empowering individuals;
- collective and individual accountability;
- integrity in our care for the business;

	<ul style="list-style-type: none"> • prudent and accurate scorekeeping; • ensuring that the business case always prevails through open communication, vigorous debate and participative non-hierarchical decision making; • being a good corporate citizen - seeing sustainable development and sustainable profit growth as complementary objectives; and • helping to create a better world that is socially and environmentally viable in the long term. <p>Performance evaluations of employees includes ethical conduct.</p>
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Responsible corporate citizenship

<p>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</p>	<p>The board has delegated to the social, ethics and transformation committee, the responsibility for monitoring and reporting of social, ethical, transformational and sustainability practices that are consistent with good corporate citizenship.</p>
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Governance outcome: good performance

Strategy, implementation and performance

<p>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.</p>	<p>The board, as part of its decision making in the best interest of the group, ensures that a stakeholder-inclusive approach is adopted, which takes into account and balances stakeholders’ legitimate and reasonable needs, interests and expectations.</p> <p>The board sets the direction for the realisation of the group’s core purpose and values through its strategy, and delegates to management the formulation and development of the group’s short-, medium- and long-term strategy.</p> <p>The risks, opportunities and other significant matters connected to the triple context (economic, social and environmental issues) in which the group operates are considered.</p> <p>The group believes that effective risk and opportunity management is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in business processes and ensure that consistent standards exist across the group. In line with the group’s corporate governance framework, the board retains ultimate responsibility for providing strategic direction, setting risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.</p>
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Reports and disclosure

<p>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.</p>	<p>Refer to the FirstRand 2017 annual integrated report that presents material information in an integrated manner, and provides users with a holistic, clear, concise and understandable presentation of the group’s performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. The group is striving to fully achieve this principle by ensuring continued improvement of the way that the group communicates with stakeholders.</p>
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Governance outcome: effective control

Role of the governing body	
<p>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	<p>The board implements the highest standards of corporate governance at all operations. Governance structures and processes are formally reviewed annually and continuously adapted to accommodate internal developments, and reflect national and international best practice. The board considers corporate governance to be a priority and endeavours to go beyond compliance, where appropriate.</p> <p>The board annually approves FirstRand’s overarching corporate governance objective, which includes ensuring compliance by the group with relevant legislation and other best practice deemed appropriate to the effective functioning of the FirstRand group.</p> <p>The board's role and responsibilities are articulated in the board charter. The board is the focal point and custodian of corporate governance, both in terms of how its role and responsibilities are documented and the way it executes its duties and responsibilities.</p> <p>The board charter and board committee charters are reviewed regularly.</p>

<p>Composition of the board</p>	<p>The board, with the assistance of the directors’ affairs and governance committee (DAG) and nomination committee, considers, on an annual basis, its composition in terms of balance of skills, experience, diversity, independence and knowledge, and whether this enables it to effectively discharge its role and responsibilities.</p> <p>The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.</p> <p>The board has taken steps to strengthen its succession plan to also include an immediate and interim succession plan in the event of an unforeseen event. The FirstRand board competency framework was developed and approved by DAG during the year.</p> <p>The policy on the promotion of race and gender diversity is included in the nominations committee charter which states that the identification of suitable members to the board will take cognisance of the board’s needs for appropriate demographics and diversity, which applies to, <i>inter alia</i>, academic qualifications, technical expertise, relevant industry knowledge, nationality, age, race and gender diversity at board level.”</p>
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Governance structures	
<p>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.</p>	<p>The composition of the committees of the board and the distribution of authority between the chairman and other directors is balanced and does not lead to instances where individual(s) dominate decision-making within governance structures or where undue dependency is caused.</p> <p>All directors, whether classified as executive, non-executive or independent non-executive, act with independence of mind, in the best interest of the group. The roles of the chairman, lead independent director and chief executive officer are set out in the board charter, demonstrating a clear balance of power and authority at board level, to ensure that no one director has unfettered powers of decision-making.</p> <p>In discharging its duties, the board is empowered to delegate to management. As such, the board is supported by senior management, together with various board committees and other governance forums and structures. The board is assisted further by the strategic executive committee (Stratco), which is the custodian of the group’s strategy and allocation of financial resources within the board-approved risk/reward</p>

	<p>framework. Stratco is chaired by FirstRand's CEO and is composed of the deputy CEO, financial director, franchise CEOs, group treasurer and head of human capital and sustainability.</p> <p>The audit committee has satisfied itself with the performance and independence of the external auditors.</p> <p>The chief financial officer is the head of the finance function and he has a senior manager reporting to him. The audit committee has assessed the performance of the chief audit executive and the arrangements of internal audit, and is satisfied that the internal audit function is independent and appropriately resourced.</p> <p>An assessment of the effectiveness of the chief financial officer function is performed annually by the audit committee and reported on in the annual integrated report.</p>
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Evaluations of performance of the board

<p>The board 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</p>	<p>During the year, the directors' affairs and governance committee measured the board's performance and effectiveness, and that of the individual members and the company secretary. Evaluations during the year were formally conducted internally and identified no material concerns in respect of the areas assessed, hence no remedial actions were required.</p> <p>The board is satisfied that the evaluation process is improving its performance and effectiveness, and will continue to find ways to improve on the evaluation process.</p> <p>During the reporting period, the following areas were assessed:</p> <ul style="list-style-type: none"> • board and board committee governance, performance and effectiveness; • performance and effectiveness of the board chairman; • performance and effectiveness of individual non-executive directors; • performance and effectiveness of the company secretary; • independence of independent non-executive directors who have served continuously for nine years or more.
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Delegation to management

<p>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.</p>	<p>Delegation of authority resolutions were passed by the board and reviewed regularly. In addition, the board charter indicates matters reserved for the board and those delegated to management.</p> <p>The board is satisfied that FirstRand is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.</p> <p>The chief executive does not have any work commitments outside of FirstRand and its related companies. A succession plan for the chief executive is in place.</p> <p>The company secretary is appointed on a full-time basis with the requisite knowledge, experience and stature. The company secretary's performance is assessed annually and no major issues or concerns have been identified. The board is satisfied that the company secretary and the function that she oversees are performing well. The company secretary signs off on disclosure of membership of board structures, number of meetings of each and attendance at each meeting as well as the overall content of the committee information and reporting in the public domain.</p>
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<p>Risk and opportunity governance</p> <p>The governing body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p>	<p>The group believes that effective risk management is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in business processes and ensure that consistent standards exist across the group. In line with the group’s corporate governance framework, the board retains ultimate responsibility by providing strategic direction, setting risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.</p> <p>The group’s business performance and risk management framework (BPRMF) describes the group’s approach to risk and opportunity management. Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation. There are three lines of control across the group’s operations, which are recognised in the BPRMF.</p> <p>The primary board committee overseeing risk matters across the group is the FirstRand risk, capital management and compliance (RCC) committee, which has a number of specialist sub-committees.</p> <p>The group board committees comprise members of franchise advisory boards, audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group.</p> <p>The group believes that effective risk, performance and financial resource management are of primary importance to deliver sustainable returns to stakeholders. These disciplines are, therefore, embedded in the group’s tactical and strategic decision-making.</p> <p>The audit and risk committee implements a process whereby risks to the sustainability of the company’s business are identified and managed within acceptable parameters.</p> <p>The audit and risk committee delegates to management to continuously identify, assess, mitigate and manage risks and opportunities within the existing and ever-changing risk profile of FirstRand’s operating environment. Mitigating controls are formulated to address the risks and the board is kept up-to-date on progress on the risk management plan.</p>
<p>Technology and information governance</p>	
<p>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p>	<p>The board is aware of the importance of technology and information as it is interrelated to the strategy, performance and sustainability of FirstRand. The information technology risk and governance committee is responsible for information and technology governance in accordance with King IV, and ensures the effectiveness and efficiency of the group’s information systems as required by the Banks Act. The committee includes two external IT specialists and a member of Stratco to assist the board in governing technology and information in a way that supports the group setting and achieving its strategic objectives.</p>
<p>Compliance governance</p>	
<p>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.</p>	<p>Compliance with laws and regulations applicable to its operations is critical to the group as non-compliance may have potentially serious consequences. The Regulatory Risk Management (RRM) board’s mandate is to ensure full compliance with all statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks.</p> <p>Although independent of other risk management and governance structures, the RRM function works closely with the group’s business units, the Public Policy and Regulatory Affairs Office, GIA, ERM, external auditors, internal</p>

	<p>and external legal advisors and the company secretary’s office to ensure effective functioning of compliance processes.</p> <p>The FirstRand social, ethics and transformation monitoring committee assists the board with ensuring responsible business practices within the FirstRand group and monitors the group’s activities in line with section 72 of the Companies Act, no 71 of 2008.</p>
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Remuneration governance

<p>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.</p>	<p>FirstRand endeavours to remunerate fairly, responsibly and transparently to promote the creation of value in a sustainable manner.</p> <p>The remuneration report and policy is set out in the 2017 annual integrated report.</p> <p>A non-binding advisory vote on the remuneration policy is tabled at the annual general meeting and has been duly approved by shareholders in prior years. A non-binding advisory vote on the remuneration implementation report is included in the notice of annual general meeting for shareholder approval.</p> <p>The board approved the engagement process in the event that either the remuneration policy resolution or the implementation report resolution, or both, have been voted against by 25% or more of the voting rights exercised at a shareholder meeting.</p> <p>The board will continue to encourage regular dialogue with shareholders, to create and maintain a mutual understanding of what performance and value creation for the group constitutes for the purpose of evaluating the remuneration policy.</p>
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Assurance

<p>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.</p>	<p>Formal enterprise-wide governance structures for enhancing the practice of combined assurance at group and subsidiary levels are overseen by the audit committee.</p> <p>The assurance providers in this model include GIA, senior management, ERM, RRM and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the group’s risk and capital management processes.</p> <p>The outcomes of the combined assurance work indicate greater efficiency of the assurance process through elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues resulting in the implementation of appropriate preventative and corrective action plans.</p> <p>The board is satisfied that assurance results in an adequate and effective control environment, and integrity of reports for better decision-making.</p> <p>The audit committee report is contained in the annual integrated report.</p>
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Governance outcome: legitimacy

Stakeholders

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.

FirstRand has identified its stakeholder groups as:

- government and regulators;
- shareholders and analysts;
- employees;
- customers;
- suppliers; and
- communities and civil society.

The group endeavours to balance its stakeholder’s legitimate and reasonable needs, interests and expectations.

The FirstRand Corporate Centre (FCC) represents key group-wide functions, including group treasury (capital, liquidity and financial resource management), group finance, group tax, enterprise risk management, regulatory risk management and group internal audit. FCC has a custodianship mandate which includes managing relationships on behalf of the group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key group strategic frameworks (e.g. performance measurement, and risk/reward). Its objective is to ensure the group delivers on its commitments to stakeholders.

The FirstRand Ethics and Compliance conference was held on 30 September 2016. The conference enabled a platform for business leaders, independent non-executives, key regulators and the ethics and compliance professionals across the group to reflect on the current macro-regulatory environment and to reassess the group’s regulatory risk management approaches to be “fit for future”.

During the reporting period, the board approved the FirstRand external communication and public disclosure policy which governs communication with external stakeholders and the disclosure of material information in compliance with statutory requirements.

Relationship within a group of companies

The FirstRand board is the custodian of corporate governance across the group and sets the direction for how the relationship and exercise of power for the group will be approached and conducted.

FirstRand’s policies are developed and implemented at group and subsidiary levels.

In cases where policies are required to address specific needs of business units and their stakeholders, these are developed and applied at business unit level with appropriate group oversight via Stratco.

The delegation of authority resolution is signed by the board and reviewed regularly.

The board, through the director’s affairs and governance committee, reviews a comprehensive and robust annual assessment that measures the implemented processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy to monitor that corporate governance objectives specified by the board are achieved across the group.

The group’s risk governance framework is set out in the group’s business performance and risk management framework.