



# 2016 Application of **King III principles**

Standard Bank Group Limited

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KING III PRINCIPLE	COMPLIANCE	APPLICATION OF PRINCIPLE
<b>CHAPTER 1: ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP</b>		
1.1 The board should provide effective leadership based on an ethical foundation.	✓	The board provides effective leadership that is based on an ethical foundation. The role of the chairman and the board collectively includes ensuring that the conduct of the board and that of management is aligned with the group's values and the code of ethics. The responsibility for incorporating the spirit of the group's code of ethics has been delegated to the group chief executives and the group ethics officer.
1.2 The board should ensure that the company is and is seen to be a responsible corporate citizen.	✓	The board ensures that the company is and is seen to be a responsible corporate citizen. It ensures that in formulating the group's strategy, it considers a full range of issues that influence the sustainability of the business, create value over the long term and take into account the social and economic environments in which the group operates. The group social and ethics committee (SEC) provides oversight of the group's activities relating to responsible corporate citizenship.
1.3 The board should ensure that the company's ethics are managed effectively.	✓	SEC monitors the group's implementation, reporting, training and awareness of ethics management and the code of ethics. The group chief executives and group ethics officer are the formal custodians of the code and are responsible for entrenching it throughout the group.  The group's values and ethics form an integral part of the group's strategy and its implementation. The assessment of executive performance includes assessment against group values.
<b>CHAPTER 2: BOARDS AND DIRECTORS</b>		
2.1 The board should act as the focal point for and custodian of corporate governance.	✓	The board has overall responsibility for adequate corporate governance across the group. It operates within a defined governance framework. It retains effective control through this framework and provides for delegation of authority with clearly defined mandates and authorities while it retains its accountability. The board has delegated the role of oversight over corporate governance across the group to the directors' affairs committee (DAC).
2.2 The board should appreciate that strategy, risk, performance and sustainability are inseparable.	✓	The board is ultimately responsible for the group strategy and appreciates that strategy, risk, performance and sustainability are inseparable. Every year, the board sets aside a two-day strategy session, in which the board deliberates on the group's strategy, assesses the risks and opportunities, considers progress on implementation of the strategy and ensures that it is in line with the group values, executed within the approved risk appetite and ensures sustainability of the group. During the year the group risk and capital management committee (GRCMC) helped the board in its oversight role of risk management.
2.3 The board should provide effective leadership based on an ethical foundation.	✓	See principle 1.1

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2.4 The board should ensure that the company is and is seen to be a responsible corporate citizen.	✓	See principle 1.2
2.5 The board should ensure that the company's ethics are managed effectively.	✓	See principle 1.3
2.6 The board should ensure that the company has an effective and independent audit committee.	✓	The board ensures that the company has an effective and independent audit committee as set out in the comments to chapter 3 below.
2.7 The board should be responsible for the governance of risk.	✓	The board is responsible for the governance of risk as set out in the comments to chapter 4.
2.8 The board should be responsible for information technology (IT) governance.	✓	The board is responsible for IT governance as set out in the comments to chapter 5.
2.9 The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	The board ensures that the group complies with applicable laws and considers adherence to non-binding rules, codes and standards as set out in the comments to chapter 6.
2.10 The board should ensure that there is an effective risk-based internal audit.	✓	The board ensures that there is an effective risk-based internal audit as set out in the comments to chapter 7.
2.11 The board should appreciate that stakeholders' perceptions affect the company's reputation.	✓	The board appreciates that stakeholders' perceptions affect the group's reputation as set out in the comments to chapter 8.
2.12 The board should ensure the integrity of the company's integrated report.	✓	The board ensures the integrity of the group's integrated report as set out in the comments to chapter 9.
2.13 The board should report on the effectiveness of the company's system of internal controls.	✓	The board reports on the effectiveness of the group's system of internal controls as set out in the comments to chapters 7 and 9.

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2.14 The board and its directors should act in the best interests of the company.	✓	<p>In line with their fiduciary duties, the Companies Act and Banks Act responsibilities as well as the King Code, the group's values and code of ethics, the board and its directors act in the best interests of the company. Each director is required to disclose any outside business interests and should a conflict arise, the director is required to recuse themselves from participating on that matter as envisaged in the Companies Act.</p> <p>To enable the board to function effectively, all directors have full and timely access to information that may be relevant in the proper discharge of their duties.</p>
2.15 The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act.	Not Applicable	<p>This provision does not apply as the company is governed by the Banks Act in this regard.</p> <p>The board considers the group's going concern status at the interim and end-of-year board meetings in order to report on same in the annual integrated report.</p> <p>The board monitors the solvency and liquidity of the group as envisaged in the South African Companies Act.</p>
2.16 The board should elect a chairman of the board who is an independent non-executive director. The chief executive officer of the company should not also fulfil the role of chairman of the board.	✓	<p>The chairman is an independent non-executive director, Thulani Gcabashe. The roles of chairman and chief executive are separate, with their responsibilities clearly defined. The chairman is responsible for leading the board and ensuring its effectiveness. The group chief executives, Ben Kruger and Sim Tshabalala, are responsible for the execution of the group's strategy and the day-to-day management of the group.</p>
2.17 The board should appoint the chief executive officer and establish a framework for the delegation of authority.	✓	<p>The board is responsible for appointing the group chief executive; it has delegated authority in writing to the group chief executives to manage the business and affairs of the group. The group chief executives are held jointly and severally accountable for the performance of the group. The delegation of authority framework is reviewed annually in consultation with the group finance function to ensure that the limits remain appropriate. The group secretary monitors effective implementation of the authority delegated to the group chief executives.</p>

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<p>2.18 The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.</p>	✓	<p>The group has a unitary board structure comprising 20 directors, 14 (70%) of whom are independent non-executive directors, three (15%) of whom are non-executive directors and three (15%) of whom are executive directors (the group chief executives and the group financial director). The composition of the board ensures there is a balance of power, so no individual or group dominate board processes or decision-making. Board deliberations are robust and are characterised by open debate. Non-executive directors bring different perspectives to board deliberations, and the constructive challenging of the views of management is encouraged.</p> <p>Annual evaluation of director independence is carried out by the board assisted by DAC which agrees the process for the evaluation of independence of board members for board approval.</p> <p>Independence is determined according to the criteria set in the King Code, and also includes the rigorous review of non-executive directors who are classified as independent and have served longer than 9 years on the board. An annual review, in terms of an agreed methodology, is conducted on all directors classified as independent.</p> <p>Thulani Gcabashe, Kgomotso Moroka, and Myles Ruck, have all served for periods longer than nine years. Following the rigorous annual review, these directors are considered to be independent in character, demonstrated behaviour, contribution to board deliberations and judgement, notwithstanding tenure. In the assessment of independence, an individual's effective shareholding in the group's shares is taken into account to ensure that for directors considered independent, their shareholding is not material to their personal wealth.</p> <p>Ted Woods has served on the board for longer than nine years and is considered independent. Having reached retirement age, he will be retiring from the board at the 2017 AGM.</p> <p>For the period under review, the group's largest shareholder, ICBC nominated directors, Dr Shu Gu and Wenbin Wang; as well as Jacko Maree who retired as group chief executive in 2013 and was appointed to the board in November 2016, are not considered independent.</p>

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2.19 Directors should be appointed through a formal process.	✓	<p>Director appointments are conducted through a formal and open process. DAC assists the board in the search and nomination of prospective non-executive directors. All board members get invited to participate in director interviews. The group's shareholders ultimately appoint the directors at AGMs. Between AGMs, the board may make interim appointments on the recommendation of DAC in terms of the Memorandum of Incorporation (MOI). The interim appointees are required to retire at the following AGM where they stand for re-election. In addition, one-third of the non-executive directors are required to retire at each AGM and may stand for re-election. If recommended by the DAC and supported by the board, the board proposes their re-election to shareholders.</p> <p>Subject to the provisions of the MOI, and relevant legislation, there is no limitation on the number of times a non-executive director may stand for re-election. Proposals for re-election are based on individual performance and contribution, which DAC and the chairman review.</p> <p><i>Exceptions to application of recommended practice:</i> In terms of Recommendation 88.7, SBG does not disclose actual or potential political connections or exposure for directors. While some of the group's directors are members of political parties in South Africa, no director is an office bearer of any political party.</p>
2.20 The induction of and ongoing training and development of directors should be conducted through formal processes.	✓	<p>All directors receive a letter setting out the terms of their appointment; the group's governance manual containing all relevant governance information such as founding documents, mandates, governance structures, significant reports, relevant legislation and policies. One-on-one meetings and site visits are scheduled with management to introduce new directors to the company and its operations.</p> <p>Ongoing director education remains a focus. The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the group and its operations. The directors' education programme continued to focus on business operations issues and additional time was scheduled outside of board meetings for sessions on pertinent issues.</p> <p>Dates for training are scheduled in advance and form part of the board-approved annual calendar. Director training in 2016 covered the following topics:</p> <ul style="list-style-type: none"> <li>• Risk data aggregation and risk reporting (RDARR)</li> <li>• Cloud computing</li> <li>• Model development and model validation requirements</li> <li>• SBG mobile applications</li> <li>• Cybersecurity</li> <li>• IFRS 9: Financial Instruments</li> </ul>

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2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary.	✓	<p>The group secretary ensures the board remains cognisant of its duties. In addition to guiding the board on discharging its responsibilities, the group secretary keeps the board abreast of relevant changes in legislation and governance best practice. The group secretary also oversees the induction of new directors, as well as the ongoing education of directors. All directors have access to the services of the group secretary.</p> <p>The group secretary, Zola Stephen, holds a BProc and LLB and has over 16 years' experience in corporate governance.</p>
2.22 The evaluation of the board, its committees and the individual directors should be performed every year.	✓	<p>The chairman is responsible for ensuring the board's effectiveness and the execution of its mandate. The directors' affairs committee and the group secretary support the chairman in the review of the effectiveness of the board, its committees and individual directors.</p> <p>The board evaluates its performance and that of its committees for effectiveness through:</p> <ul style="list-style-type: none"> <li>• an internal review by the group secretary reporting to the chairman; or</li> <li>• facilitation by an independent external evaluator. This is performed every three years; and</li> <li>• individual director evaluations are performed by the chairman in one-on-one sessions.</li> </ul>
2.23 The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	✓	<div data-bbox="668 984 722 1064" style="display: inline-block; vertical-align: middle;">  </div> <div data-bbox="739 1003 1286 1045" style="display: inline-block; vertical-align: middle;"> <p>Refer to report on board evaluation in the 2016 Governance and Remuneration Report.</p> </div> <p>In discharging its duties, the board delegates authority to relevant board committees and the group chief executives with clearly defined mandates and authorities, whilst retaining accountability.</p> <p>Board committees facilitate the discharge of board responsibilities and provide in-depth focus on specific areas. Each committee has a mandate, which the board reviews at least annually. Each mandate sets out the role, responsibilities, scope of authority, composition, terms of reference and procedures;</p> <p>The following committees are in place:</p> <ul style="list-style-type: none"> <li>• Group directors' affairs (DAC);</li> <li>• Group audit (GAC);</li> <li>• Group risk and capital management (GRCMC);</li> <li>• Group social and ethics (SEC);</li> <li>• Group IT (GITC);</li> <li>• Group remuneration (RemCo); and</li> <li>• Group model approval.</li> </ul> <p>There are certain matters that are reserved for board decision, and such matters are detailed in the board's mandate.</p>

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2.24 A governance framework should be agreed between the group and its subsidiary boards.	✓	<p>The board has approved a subsidiary governance framework, the aim of which is to ensure consistent application of sound governance practices and appropriate risk management and control environments, and to create long-term value for the group and its stakeholders. A set of subsidiary governance principles has also been approved by the board for adoption by subsidiary boards, setting the context for the role of subsidiary boards in relation to the parent company.</p>
2.25 Companies should remunerate directors and executives fairly and responsibly.	✓	<p>RemCo is tasked with reviewing and approving the remuneration policy and strategy in the long-term interest of the group. Having regard to market factors, the group's remuneration policy and company performance, the committee determines the remuneration paid to the group chief executives and approves remuneration for all senior executives of the group. RemCo also considers non- executive directors' fees and makes recommendations to the board for consideration and ultimate shareholder approval.</p> <p>Annually, the remuneration policy is brought to an advisory vote by shareholders at the AGM in line with good governance.</p> <div data-bbox="662 875 725 957" style="display: flex; align-items: center;">  <div data-bbox="733 894 1302 938" style="margin-left: 10px;"> <p>Refer to the remuneration report in the 2016 Governance and Remuneration Report.</p> </div> </div> <p><i>Exceptions to application of recommended practice:</i></p> <p>In terms of recommendation 153, the board has considered the King Code requirement that non-executive remuneration should comprise a base fee and an attendance fee per meeting. The board has agreed that the current single comprehensive annual fee structure is more appropriate for the group.</p> <p>Recommendation 173, The King Code requires that options or other conditional share awards should not vest or be exercisable within three years from the date of the grant. While the deferred bonus scheme (DBS), which is settled in Standard Bank equity shares or cash equivalent, has an initial vesting period shorter than three years, the average vesting period for deferred bonuses is approximately three years.</p>
2.26 Companies should disclose the remuneration of each individual director and prescribed officer.	✓	<p>The remuneration report provides details required by the Companies Act and the King Code on the remuneration policy and practices followed by the group, the remuneration earned by the board of directors and prescribed officers, and the terms of employment for executive directors and prescribed officers.</p> <div data-bbox="662 1485 725 1567" style="display: flex; align-items: center;">  <div data-bbox="733 1504 1302 1548" style="margin-left: 10px;"> <p>Refer to the remuneration report in the 2016 Governance and Remuneration Report.</p> </div> </div>
2.27 Shareholders should approve the company's remuneration policy.	✓	<p>The group's remuneration policy was tabled and approved at the group's 2016 annual general meeting.</p>

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<b>CHAPTER 3: AUDIT COMMITTEES</b>		
3.1 The board should ensure that the company has an effective and independent audit committee.	✓	The group has an audit committee which comprises eight independent non-executive directors. GAC met eight times in 2016 and participated in the annual board and committee evaluation to assess its effectiveness, and how it has met its mandate. The committee met its mandate and is considered effective.
3.2 Audit committee members should be suitably skilled and experienced independent non-executive directors.	✓	Members of the committee are appointed based on experience, skills and competence. All the members of the committee are independent non-executive directors.  Refer to the 2016 Governance and Remuneration report which details the committee's composition, skills and experience.
3.3 The audit committee should be chaired by an independent non-executive director.	✓	Richard Dunne is the chairman of the committee and is an independent non-executive director.
3.4 The audit committee should oversee integrated reporting.	✓	Included in its mandate, is the audit committee's responsibility to ensure the integrity of information in the integrated report.
3.5 The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.	✓	GAC has ensured that the group applies a combined assurance model to provide a coordinated approach to all assurance activities. During the year, GAC reviewed the plans and work outputs of the external and internal auditors as well as compliance and financial crime control, and concluded that these were adequate to address all significant financial risks facing the business.
3.6 The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function.	✓	During the year, GAC considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate. It also considered the appropriateness of the experience and expertise of the group financial director and concluded that these were appropriate.  Refer to the 2016 Risk and Capital Management Report and Annual Financial Statement.

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3.7 The audit committee should be responsible for overseeing of internal audit.	✓	GAC is responsible for overseeing the group internal audit function. It has reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter; reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings; assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory.
3.8 The audit committee should be an integral component of the risk management process.	✓	<p>GRCMC is tasked with overseeing risk and capital management. GAC is an integral component of risk management process, with six members of the group audit committee being members of the GRCMC.</p> <p>The board chairman is a member of and attended GRCMC meetings held during the year under review.</p> <p>Through its oversight function, GAC satisfied itself that the following areas had been addressed:</p> <ul style="list-style-type: none"> <li>• Financial reporting risk</li> <li>• Internal financial controls</li> <li>• Fraud risk</li> <li>• Information technology as it relates to financial reporting</li> </ul>
3.9 The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	✓	In respect of the external auditors and the external audit, GAC reviewed and recommended the independence and reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as auditors of Standard Bank Group Limited and oversaw the external audit process.
3.10 The audit committee should report to the board and shareholders on how it has discharged its duties.	✓	 <p>GAC report was presented to the board, and is included in the 2016 Annual financial statements (2016 Risk and Capital Management Report and Annual Financial Statements). Activities of the committee have been included in the governance and remuneration report.</p>

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<b>CHAPTER 4: THE GOVERNANCE OF RISK</b>		
4.1 The board should be responsible for the governance of risk.	✓	<p>The board has delegated responsibility to GRCCM, which provides independent and objective oversight of risk and capital management across the group by:</p> <ul style="list-style-type: none"> <li>• reviewing and providing oversight in respect of the adequacy and effectiveness of the group's risk management framework;</li> <li>• approving risk and capital management governance standards and policies; and</li> <li>• reviewing and approving the group's risk appetite statements and monitoring the group's risk profile.</li> </ul>
4.2 The board should determine the levels of risk tolerance.	✓	<p>The board delegates the review and approval of the risk appetite to GRCCM, which in turn ensures that risk appetite is in line with group strategy and the desired balance between risk and return.</p> <p>GRCCM established parameters for risk appetite by:</p> <ul style="list-style-type: none"> <li>• providing strategic leadership and guidance</li> <li>• ensuring that risk is managed in accordance to the approved risk appetite and relevant risk governance standards, frameworks and policies</li> <li>• regularly reviewing and monitoring performance in relation to risk through quarterly risk management reports</li> <li>• monitoring risk tendency against risk appetite.</li> </ul>
4.3 The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	✓	GRCCM assists the board in carrying out its risk responsibilities as set out in the comments to principles 4.1 and 4.2 above.
4.4 The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	✓	<p>Executive management oversight for all risk types has been delegated to the group risk oversight committee (GROC) which, in turn, assists GRCCM in fulfilling its mandate. GROC considers and, to the extent required, recommends for approval by the relevant board committees for the following:</p> <ul style="list-style-type: none"> <li>• risk appetite statements;</li> <li>• approval of macroeconomic scenarios for stress testing, stress-testing results and scenario analyses</li> <li>• risk governance standards for each risk type actions on the risk profile and/or risk tendency</li> <li>• internal capital adequacy assessment processes (ICAAP).</li> </ul>
4.5 The board should ensure that risk assessments are performed on a continual basis.	✓	GRCCM continuously assesses the risk management practices performed by management by considering the risk management reports from the chief and business unit risk officers on events and risks that had occurred or were emerging, which were expected to have a direct or indirect impact on the group's operations and markets. It also receives regular feedback from the risk officers on material matters discussed at GROC meetings.

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4.6 The board should ensure that the frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	✓	GRCMC has approved the risk governance standards and considered and approved the risk appetite statement for the banking operations of the group and for SBSA. It also considered and approved the macroeconomic scenarios that were used in the budget 2016 group stress testing; and recommended the internal capital adequacy assessment process to the board for approval
4.7 The board should ensure that management considers and implements appropriate risk responses.	✓	GRCMC considers the group's risk profile relative to the group's strategy. It reported to the board its consideration of the risk profile of the group and any longer-term macro or perceived strategic threats to the group, and made recommendations as appropriate.
4.8 The board should ensure continual risk monitoring by management.	✓	GRCMC considered reports from management that covered key risks including credit, equity, compliance, country, capital and liquidity, market, operational and insurance risk;  At each GRCMC meeting, the group CRO provided the committee with an overview of the key risk issues discussed at GROC meetings.
4.9 The board should receive assurance regarding the effectiveness of the risk management process.	✓	The board relies on quarterly reports from the various committees, as well as periodic attestations by senior risk managers and group internal audit, to satisfy itself that the group's risk management processes are fit for purpose and are operating effectively.
4.10 The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	✓	The GRCMC approves the annual risk and capital management report.   Refer to the Risk and Capital Management Report and Annual Financial Statements 2016, to view the risk and capital management report.

#### CHAPTER 5: THE GOVERNANCE OF INFORMATION TECHNOLOGY

5.1 The board should be responsible for information technology ("IT") governance.	✓	The board assumes ultimate responsibility for financial and information technology governance and has constituted a Group IT committee to assist the board with the governance thereof.
5.2 IT should be aligned with the performance and sustainability objectives of the company.	✓	The board is responsible for ensuring that prudent and reasonable steps have been taken with regard to IT governance, including aligning the IT strategy with the group's strategic objectives, performance targets and ensuring that it contributes the sustainability of the group.
5.3 The board should delegate to management the responsibility for the implementation of an IT governance framework.	✓	The board has delegated the day to day management of, and tasked management with implementing an IT governance framework.
5.4 The board should monitor and evaluate significant IT investments and expenditure.	✓	Included in the terms of reference of the mandate of the GITC is the monitoring and evaluating of significant IT investment and expenditure.

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5.5 IT should form an integral part of the company's risk management.	✓	IT risk is integrated in the company's risk management and considered by GRCCM. Refer to 5.1 above.
5.6 The board should ensure that information assets are managed effectively.	✓	GITC ensures that IT governance standards are being implemented effectively that ensures the safeguarding of information assets.
5.7 A risk committee and audit committee should assist the board in carrying out its IT responsibilities.	✓	<p>The terms of reference of GAC includes, ensuring the use of relevant technology and techniques to improve audit coverage and audit efficiency; and overseeing IT risk in relation to financial reporting.</p> <p>The terms of reference of GRCCM also include reviewing management reports which evidence the effectiveness of the group's risk and capital functions, and ensuring that management considers and implements appropriate risk responses. As part of its monitoring of the risk function, GRCCM reviews the operational risk profile of the group, which incorporates IT risks.</p>

#### CHAPTER 6: COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS

6.1 The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	<p>Complying with all applicable legislation, regulations, standards and codes is integral to the group's culture and imperative to achieving its strategy.</p> <p>Compliance risk management is an integrated component of the group's risk management framework, oversight of which is delegated to GRCCM. GRCCM approves the group's compliance risk governance standard and reviews quarterly reports on compliance matters of group-level significance. GAC reviews and approves the group compliance mandate and monitoring plan, and monitors the delivery thereof. GAC also monitors the group's compliance with applicable regulation, legislation, rules and codes</p>
6.2 The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	✓	As part of their induction, directors receive information on applicable laws, rules, codes and standards that the group needs to comply with. Developments of a regulatory nature, as well as their potential impact on the group, are presented to the board.
6.3 Compliance risk should form an integral part of the company's risk management process.	✓	Compliance risk management is an integral part of the group's risk framework, which provides a basis for the group's risk governance standards and is governed by GRCCM-approved compliance risk governance standard.

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6.4 The board should delegate to management the implementation of an effective compliance framework and processes.	✓	The board delegates responsibility for compliance to management and monitors this through the compliance function. New and emerging regulatory and legislative developments are routinely reported to GROC and GRMC. A compliance risk governance standard is approved by GRMC. On a quarterly basis, the chairman of GAC meets with the group chief compliance officer and chief internal audit officer, in the absence of management, to discuss the adequacy and effectiveness of the management of risks to which the group is exposed.

#### CHAPTER 7: INTERNAL AUDIT

7.1 The board should ensure that there is an effective risk-based internal audit.	✓	<p>The board ensures that there is an effective risk based internal audit approach through GAC which reviews and approves the internal audit charter and annual audit plan. It evaluates annually the role, independence and effectiveness of the internal audit function in the overall context of the group's risk management framework.</p> <p><i>Exceptions to application of recommended practice:</i> In terms of paragraph 5 of principle 7.1 of the King Code, it is recommended that the internal audit charter should be approved by the board. The board has delegated this responsibility to the GAC.</p>
7.2 Internal audit should follow a risk-based approach to its plan.	✓	Group internal audit follows a risk-based approach for coverage planning, to meet regulatory and statutory requirements such as the Banks Act, Basel requirements, King Code and specific requests from regulators and external auditors. The risk assessment combines consideration of business strategy, assessments of inherent risks, and links to the control environment across businesses and functions to arrive at a risk-aligned audit plan. This is consistent with the methodologies used globally and aligned with the business' risk management processes.
7.3 Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management.	✓	<p>GAC reviews a quarterly report from Internal Audit which covers progress with delivery of the audit plan; an analysis of the cumulative results of audit outcomes for the year; a summary of satisfactory and less than satisfactory audits that were completed during the reporting period, as well as the outcomes of reviews performed at the request of management; and an analysis of the status of audit findings previously reported.</p> <p>The committee reviews Internal Audit's annual report which summarises the results and themes identified as part of Internal Audit's activities for the year. The report concludes with Internal Audit's assurance statement that the control environment was effective to maintain the degree or risk taken by the group at an acceptable level and that internal financial controls were adequate and effective in ensuring the integrity of material financial information.</p>

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7.4 The audit committee should be responsible for overseeing internal audit.	✓	GAC oversees the internal audit function by evaluating annually the role, independence and effectiveness of the internal audit function in the overall context of the group's risk management system. The chief internal audit officer, reports functionally to the group audit committee.
7.5 Internal audit should be strategically positioned to achieve its objectives.	✓	The GIA function, under the stewardship of the chief internal audit officer, reports to and operates under the GAC-approved charter. In terms of its charter, group internal audit's role is to provide independent and objective assurance, designed to add value and improve group operations. Group internal audit has the authority to independently determine the scope and extent of work to be performed. All internal audit employees in the group report operationally to the chief audit officer and administratively to management.

#### **CHAPTER 8: GOVERNING STAKEHOLDER RELATIONSHIPS**

8.1 The board should appreciate that stakeholders' perceptions affect a company's reputation.	✓	The board through SEC ensures the development of appropriate policies that appreciate that stakeholders' perceptions affect the group's reputation. The stakeholder engagement activities are governed by a stakeholder engagement policy approved by the board.
8.2 The board should delegate to management to proactively deal with stakeholder relationships.	✓	The group's stakeholder engagement policy ensures that the board delegates to management the management of relationships with specific stakeholder groups.
8.3 The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	✓	The board recognises the importance of promoting mutual understanding between the group and its stakeholders through effective engagement. Board meetings include the consideration of stakeholder engagement as a standing item. A quarterly stakeholder engagement report collates input from the group's business units, for review and discussion at board level.

KING III PRINCIPLE	COMPLIANCE	APPLICATION OF PRINCIPLE
8.4 Companies should ensure the equitable treatment of shareholders.	✓	<p>The board understands and treats that all holders of the same class of shares issued by the company as regards those shares equitably. The rights and obligations attaching to each class of ordinary and preference shares are set out in the company's MOI.</p> <p>AGMs provide an opportunity for the board to interact with and account to shareholders. The board and key members of management, including the group chief executives and group finance director, are present and available to answer questions. The joint external auditors also attend AGMs and are available to answer any questions from shareholders.</p>
8.5 Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	✓	Refer to principle 8.2 above.
8.6 The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	✓	The group has a robust dispute resolution process in place, which involves a well-developed complaints management process and an internal customer dispute adjudicator. Every effort is made to resolve all disputes as effectively and expeditiously as possible.

#### CHAPTER 9: INTEGRATED REPORTING AND DISCLOSURE

9.1 The board should ensure the integrity of the company's integrated report.	✓	The board acknowledges its responsibility to ensure the integrity of the annual integrated report and in the board's opinion it addresses all material issues and presents fairly the group's integrated performance. The annual integrated report has been prepared in line with best practice pursuant to the recommendations of the King Code. The board delegates authority to the GAC to facilitate the discharging of this responsibility. GAC's key terms of reference relating to the integrated report have been listed under the comments to principle 3.4.
9.2 Sustainability reporting and disclosure should be integrated with the company's financial reporting.	✓	<p>Throughout SBG's annual integrated report, sustainability disclosure is integrated with financial disclosure in order to ensure a holistic view of the organisation's performance.</p> <p>Additional disclosure on sustainability could be found in the 2016 Report to Society.</p>
9.3 Sustainability reporting and disclosure should be independently assured.	✓	<p>SEC provided oversight of the Report to Society, and certain aspects have been independently assured by KPMG Services (Pty) Limited.</p> <div style="display: flex; align-items: center;">  <div style="margin-left: 10px;">Refer to 2016 Report to Society for sustainability report.</div> </div>