



Amalgamated Banks of South Africa Limited (ABSA) is fully committed to the principles of openness, integrity and accountability as advocated in the King Committee Report on corporate governance.

Accordingly, the directors endorse and, during the period under review, have applied the Code of Corporate Practices and Conduct as set out in the King Report. In supporting the Code, the directors recognise the need to conduct the enterprise with integrity and in accordance with generally accepted corporate practices.

The directors recognise that in the light of international and South African developments and experience, such a code requires review and updating from time to time. Such review and management's programme to monitor the Group's compliance with the Code form part of the mandate of the Group Audit Committee.

Application

Although the Code is generally applied to all entities in the ABSA Group, it is specifically and in all respects adopted in all national and international operating entities of the nature and size identified in the King Report.

Boards of directors and non-executive directors

ABSA has a unitary board structure in all companies in the Group. The boards meet regularly, retain full and effective control over the companies concerned and monitor executive management. The roles of chairpersons and chief executives do not vest in the same persons and the chairpersons are non-executive directors of those entities. The Chairman and Group Chief Executive of ABSA respectively provide leadership and guidance to the ABSA board, which has a strong contingent of non-executive directors. This board reserves to itself a range of key decisions to ensure that it retains proper direction and control of the Group. The directors bring together a wealth of experience from their own fields of business and ensure that debate on matters of Group strategy, policy, progress and performance is robust, informed and constructive.

Non-executive directors are appointed for specific terms and re-appointment is not automatic. The board as a whole selects and appoints non-executive directors, their appointment being subject to confirmation by the shareholders at the annual general meeting following their appointment.

Executive directors and the executive committee

There are a number of executive directors on the boards of the Group's main subsidiaries. There are no long-term service contracts relating to the position of any Group executive directors. There is full disclosure in the directors' report and the notes to the Group financial statements of emoluments and any share options implemented, including aggregated details in respect of all the Group executive directors. The emoluments and perquisites of executive directors are determined by the Group Remuneration Committee which consists mainly of non-executive directors.

The Executive Committee established by the board is chaired by the Group Chief Executive and comprises the executive directors of the Group's major subsidiary, ABSA Bank Limited. It meets bi-weekly and deals with all material matters relating to the strategic management and development of the Group.

Remuneration committee

The board several years ago established a Group Remuneration Committee. Its specific terms of reference include direct authority for, or consideration and recommendation to the boards regarding, matters relating to, inter alia, general staff policy, remuneration and perquisites, profit bonuses, executive remuneration, directors' remuneration and fees, service contracts, the share purchase and option schemes, group retirement funds and succession planning.

Audit committee

A Group Audit Committee, whose chairman and members are non-executive directors on the boards of ABSA and/or operating subsidiaries, was established several years ago by the ABSA board. Both the internal and external

auditors have unrestricted access to the Audit Committee, which ensures that their independence is in no way impaired. Meetings are held at least five times a year and are attended by the external and internal auditors and appropriate members of executive management, including those involved in risk management and control and finance. The committee operates in accordance with written terms of reference confirmed by the board, which include assistance to the board with regard to:

- ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- matters relating to financial and internal control, accounting policies, reporting and disclosure;
- internal and external audit policy;
- activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- review/approval of external audit plans, findings, problems, reports and fees; and
- compliance with the Code of Corporate Practices and Conduct and ABSA's Code of Ethics.

Internal control

The directors are responsible for ensuring that the Group maintains adequate accounting records which disclose with reasonable accuracy the financial position of the Group. To enable the directors to meet these responsibilities, the board and management set standards, and management implements systems of internal control.

Internal control comprises the determination by management of standards for and the implementation by them of methods, procedures and systems to assist in:

- the safeguarding of assets and reducing the risk of loss, error, fraud and other irregularities;
- ensuring the accuracy and completeness of accounting records; and
- the timely preparation of reliable financial statements and information in compliance with relevant legislation and generally accepted accounting policies and practices.

In the case of a banking group in particular, great reliance is placed on information contained in its financial statements, not least by the investing community, depositors, other banks and the regulatory authorities.

The Group's internal audit function and the external auditors independently appraise the adequacy and effectiveness of the internal controls. The Group Audit Committee, with extensive input by the internal and external auditors, plays a major role in assisting the directors to satisfy themselves regarding the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for annual financial statements set out on page 39 of the annual report.

Going concern

The directors are of the opinion that the business will be a going concern in the year ahead and their statement in this regard is also contained in the statement on the responsibility of directors for annual financial statements set out on page 39 of the annual report.

Worker participation

A number of human resource processes have been designed to increase the participation of staff in decision-making. A philosophy of two-way, open and honest communication has been adopted. Communication champions have been nominated by their colleagues to act as communication facilitators. They also conduct communication forums where work-related issues are addressed and serve as a bridging function between employees and management. Worker participation is further enhanced by the interaction created through the performance management process whereby staff contract their key performance areas with their supervisors and obtain at least bi-annual assessment of their performance. Staff involvement through the industry trade union, inclusive of fully trained shop stewards and national committee structures, also provides a valuable forum for worker participation.

CORPORATE GOVERNANCE



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Constructive employment and development

In terms of ABSA's constructive employment policy, the work force should reflect the Group's customer base. ABSA's constructive employment policy is founded on the principles of affirmative action, as well as the value and management of diversity.

The following principles underlie the constructive employment policy:

- All people have the need and potential to grow and to influence their own destinies, and should be given opportunities and exposure to do so.
- All employees should be treated as individuals regardless of race, sex and creed.
- All employees are capable of making their own decisions regarding those aspects that influence their lives and development and should be encouraged to do so.
- It is recognised that special efforts will be required to assist in the development of employees who, through lack of past opportunity, do not possess the necessary skills.
- In defining and refining the policy, all relevant stakeholders must be consulted continuously.

Code of ethics

ABSA's Code of Ethics, which embraces the ABSA values, commits the Group to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders, including its directors, managers, employees, customers, suppliers, competitors, depositors, shareholders and society at large. All to whom it applies are expected to observe their ethical obligations in such a way as to carry on business only through fair commercial competitive practices.

Code of good banking practice

ABSA's constituent banks and banking divisions subscribe to the Code of Good Banking Practice endorsed by member banking groups of the Council of South African Bankers. The banks hereby conduct their businesses with uncompromising integrity and fairness so as to promote complete trust and confidence in them. In meeting this fundamental objective, the banks conduct their relationships with the regulatory authorities, their customers, competitors, employees, shareholders, suppliers and the community at large in accordance with the Code, and encourage their staff to acquaint themselves with and to honour the Code.