



**Transaction Capital**

*Corporate Governance – King IV™ Application 2018*

Transaction Capital has set out its governance structures in line with the principles set out in the King IV Report on Corporate Governance™ for South Africa (King IV). King IV advocates an outcome-based approach and defines corporate governance as:

The exercise of ethical and effective leadership towards achieving the following 4 governance outcomes:

- |                      |                    |
|----------------------|--------------------|
| ■ An ethical culture | ■ Good performance |
| ■ Effective control  | ■ Legitimacy       |

This document has been prepared in terms of the JSE listings requirements and sets out the application of the 17 corporate governance principles of King IV by Transaction Capital Limited (Transaction Capital or the group).

\* *The King IV principles below are applied by the various debt-listed entities within the group, all of which are special purpose ring-fenced entities with no employees. TransCapital Investments Limited is a wholly owned subsidiary of Transaction Capital. It currently has no notes in issue. The Transaction Capital Limited audit, risk and compliance (ARC) committee oversee all audit matters related to this company.*

## PRINCIPLE 1

### Ethical leadership

*The governing body should lead ethically and effectively.*

The Transaction Capital board (the board) is committed to good corporate governance, and maintains a high level of individual and collective responsibility, accountability, fairness and transparency. Together, these aspects drive a culture of risk awareness, ethical behaviour and value creation.

The board is responsible for the strategic direction of the group, which it considers in conjunction with the group's values and the group ethics charter. The group's values (also available on the [www.transactioncapital.co.za](http://www.transactioncapital.co.za) website) provide the foundation for effective and ethical leadership, and are the basis for all deliberations, decisions and actions at board level and within every area of the business.

The board acts as the custodian of governance and has approved a formal charter that sets out its responsibilities in this regard. The board is responsible for appointing the chief executive officer (CEO) and for monitoring his management of the performance of Transaction Capital's assets and resources against approved strategic and financial objectives.

## PRINCIPLE 2

### 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.*

Transaction Capital's ethics charter outlines the group's core values of integrity, respect, excellence, accountability and innovation. In addition, it describes Transaction Capital's guiding business principles that direct all business dealings within the group and with other stakeholders. As an ethical roadmap for the group, the ethics charter requires all group operations and employees to conduct business with honesty and integrity, and in accordance with the highest legal and ethical standards.

The Group CEO and divisional CEOs are the custodians of the charter, assisted by the group's ethics officer. The board reviews the charter regularly.

Transaction Capital maintains an independent whistle blowing hotline operated by an external service provider. Reports can be made anonymously through the hotline and are directed to the group ethics officer. Each division investigates and reports back to the group ethics officer on the results of the investigation and the actions taken. In addition, reporting of unethical or fraudulent behaviour to line management and the respective human resources departments of the group's businesses is encouraged. This is reported in the social and ethics committee meetings (and ARC committee meetings where relevant) as well as the relevant board meetings.

**PRINCIPLE 3****Responsible corporate citizenship**

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

Ultimate responsibility for corporate citizenship lies with the board, with oversight vested in the social and ethics committee and the ARC committee. The principles of responsible corporate citizenship underpin all key aspects of the business.

The social and ethics committee monitors many of the aspects listed under the King IV practices (including employment equity, fair remuneration, equal work for equal pay, safety, health, economic transformation, public health and safety, consumer protection, community development and protection of human rights). The ARC committee is responsible for the prevention, detection and response to fraud and corruption. It is also responsible for tax policy.

Each division's social relevance is core to achieving the group's strategic objectives. For further detail on the social relevance of Transaction Capital's divisions, refer to page 38 for SA Tax and page 52 for Transaction Capital Risk Services in the 2018 integrated annual report (IAR).

**PRINCIPLE 4****Strategy, implementation and performance**

*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.*

The board considers the risks and opportunities related to the context in which the group operates in directing strategy, assessing its business model and enhancing sustainability to create value for all stakeholders.

The board has delegated the formulation and implementation of group strategy to management with the required input from the board. The board has approved the group strategy along with key performance criteria and targets for management to assess its implementation.

**PRINCIPLE 5****Reports and disclosure**

*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.*

The board has approved the group strategy and risk disclosure, as detailed in the IAR. The IAR enables stakeholders to make an informed decision about the group's strategic direction and prospects.

Based on the recommendation of the ARC committee, the board approves the annual financial statements, the IAR and any other reports published by the company.

**PRINCIPLE 6****Role of the governing body**

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

The board is the focal point of the group's corporate governance framework. The group follows a stakeholder-inclusive approach to governance, with the board being ultimately responsible and accountable to stakeholders for the performance, activities and control of the group.

The board has adopted the board charter and approves board sub-committee terms of reference and group policies. The board charter and group policies regulate how the board conducts itself in the best interest of the company and its stakeholders, taking into account the principles of good corporate governance and legislation.

Each of Transaction Capital's divisions has its own board of directors, with each division's governance processes aligned to Transaction Capital's governance framework, thereby appropriately allocating levels of authority to individuals and committees throughout the group structure. The strategies, business plans and performance criteria for each division are clearly defined, with appropriate key performance indicators in place to measure and monitor performance against their strategies.

**PRINCIPLE 7****Composition of the governing body**

*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.*

The board, in conjunction with the nominations committee, assesses the composition and membership of the board and board committees holistically on an annual basis.

The non-executive directors bring independent judgement and experience to the board's deliberations and decisions. The selection of non-executive directors is based on the appropriateness of their business skills and expertise to the strategic direction of the group. The nominations committee and the board take into account the academic qualifications, technical expertise, industry knowledge, experience, business acumen, and diversity when board appointments are considered. No one individual or group of individuals has unfettered powers of decision-making.

In addition, the board considers the integrity and leadership skills, as well as other directorships and commitments of all directors to ensure that they will have sufficient time available to fulfil their responsibilities.

**PRINCIPLE 8****Committees of the governing body**

*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.*

The board delegates specific responsibilities to appropriately mandated and constituted sub-committees, set out on page 88 of the IAR. The ARC committee and the social and ethics committee both fulfil the statutory governance requirements on behalf of Transaction Capital and its divisions and group subsidiaries.

Delegation of authority is in place for board sub-committees. Board sub-committees have terms of reference, which are reviewed annually.

The governance function of the board sub-committees is outlined in the respective approved committee terms of reference approved by the board.

Included in each committee's terms of reference is the imperative to enhance the standard of governance within the group, together with clearly defined authority delegation and reporting procedures. The board receives formal feedback from the chairman of each committee at each board meeting. Copies of the minutes of committee meetings are included in board documentation.

**PRINCIPLE 9****Delegation to management**

*The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.*

Formal performance evaluations of the board, its committees and the company secretary are conducted annually by means of an evaluation questionnaire.

The evaluation assesses the combination of skills, performance during the year, contribution and independence of individual directors, and the effectiveness of committees. Results of the evaluations provide the basis for improvement of the board and its committees for the following year.

The nominations committee workplan includes discussions on board performance as well as that of committees, the chair and members.

**PRINCIPLE 10****Performance and effectiveness**

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

The board appoints the CEO and has a delegation of authority framework in place, in terms of which the CEO clearly leads the implementation and execution of strategy and policy, and serves as the link between the board and management. The CEO is accountable to and reports to the board. The role of CEO is clearly defined and his performance assessed by the board.

An authority matrix is in place for the group that governs the authority delegated to group management and matters reserved for approval by the board.

**PRINCIPLE 11****Risk and opportunity governance**

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

Transaction Capital has a board-approved risk framework, which sets the policy, risk appetite and tolerance levels of the group, identifies the top risks, and assists with ongoing risk oversight and monitoring for the group.

The board is assisted by the ARC committee and the asset and liability committee to govern risk in a way that supports its strategic objectives. Further disclosure is made in the risk report on page 91 of the IAR.

**PRINCIPLE 12****Technology and information governance**

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

The board has delegated the governance of information and technology (IT) to the ARC committee, which also ensures that an IT governance reporting framework is in place. Chief information officers (CIOs) are appointed at each division, with the appointments ratified by the group CEO. IT expenditure is reported on and governed under the group's authority framework.

Each subsidiary sets its own strategy with regard to IT, and reports thereon to its board. Disaster recovery and business continuity plans are in place for the group and are tested regularly. Compliance, information security, cyber security, risk and the control environment are all dealt with within each IT team.

In the current year, the group implemented an updated IT policy which addresses the governance of IT in line with the practices of King IV. In summary, IT governance ensures that IT goals are met and IT risks are mitigated so that IT delivers value to sustain and grow the division.

See strategic objective 3 on page 19 of the IAR that sets out details of Transaction Capital's strategy around data, technology and analytics.

**PRINCIPLE 13****Compliance governance**

*The governing body should govern compliance with applicable laws and adopted standards in a way that supports the organisation being ethical and a good corporate citizen.*

The ARC committee and social and ethics committee is responsible for compliance oversight. Board processes are in place to keep up to date with changes in the legislative landscape. The group-wide risk framework specifically manages compliance risk, with dedicated internal compliance functions in place in the divisions.

Regulatory compliance is non-negotiable. This approach is explicitly articulated in Transaction Capital's values and ethics charter.

**PRINCIPLE 14****Remuneration governance**

*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.*

The remuneration committee is responsible for establishing and overseeing remuneration policy that promotes the achievement of strategic objectives and encourages individual performance at all levels within the group.

The remuneration committee ensures that directors and employees are remunerated fairly, responsibly and transparently. The remuneration policy is in line with the group's strategy, and the policy and implementation report are tabled at the annual general meeting for separate non-binding advisory votes. Shareholder approval is required for non-executive directors' fees.

The remuneration policy and implementation report are included in the IAR on pages 102 to 112.

**PRINCIPLE 15****Assurance**

*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.*

The audit, risk and compliance committee is responsible for overseeing the combined assurance model and objectives, which include:

- Enabling an effective internal control environment.
- Supporting the integrity of information used for internal decision-making by management, the board and its committees.
- Supporting the integrity of external reports.

The group's internal assurance providers, namely risk management, compliance and internal audit, collaborate on combined assurance to support the board, and to effectively cover the group's significant risks and material matters. The ARC committee oversees the internal audit function.

The ARC committee is satisfied that the external auditor remains independent of the organisation and the group has a policy in place to address the provision of non-audit services by the external auditors.

**PRINCIPLE 16****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.*

Engaging with stakeholders forms an integral part of Transaction Capital' strategy. The sustainability policy governs the relationship with stakeholders, with the board and social and ethics committee assuming responsibility for stakeholder engagement.

At a shareholder and investor level, engagement takes place on a continuous basis through site visits, roadshows, meetings and ongoing interactions by the investor relations team. A stakeholder engagement report is submitted to the board bi-annually.

Engagement with employees and other key stakeholders is reported at each social and ethics committee meeting, the minutes of which are included in the board packs ahead of quarterly board meetings.

The divisions each have their own tailored stakeholder engagement plans in place, which are reported, considered and discussed at their respective board meetings.

The risk report on page 91 of the IAR sets out details on the relationship with key stakeholders.

**PRINCIPLE 17****Institutional investors**

Transaction Capital is not an institutional investor and hence this principle is not applicable.