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# ABSA GROUP LIMITED

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**Annual General Meeting**
4 June 2020
Financial Year End: 31st December 2019

| **Proxies voted** |
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| |
| The Ditikeni Trust |

The company is to be commended for issuing the Integrated Annual Report (Report) and other documents 2 months in advance of the Annual General Meeting (AGM), allowing time to study the report and engage with the company on any matters of concern.

The Audit Committee Report does not even refer to the fact that the company has not appointed a second firm of auditors as required under the Banks Act (the AGM Notice states that the company has permission to only have 1 firm of auditors for a further year), nor does that committee report on the impending rotation of auditors. This committee should be engaging with and ensuring that there is sufficient overlap of the auditors prior to the compulsory rotation of the existing auditors and should report to the shareholders on the progress in this regard. We are pleased that ABSA is one of the banks which puts the appointment of the Audit Committee members to shareholders to vote.

The company does note that there is pressure on financial institutions to withdraw support from coal operations but makes no commitment and gives no firm information regarding its exposure or response to this sector. The report does provide targets and current achievements over a range of environmental matters – energy, carbon, water, waste, paper, renewable energy, travel, green spaces and carbon offsets.

For the third year in a row we find a number of problems with the remuneration reports and in particular can find insufficient link between the company objectives and executive remuneration.

A well designed Report that is fairly easy to follow, it encourages shareholders to download the reports electronically, and once again the company has designed the report to be read on a computer screen, pages in landscape format and no double page spreads, the font size appeared to better this year although it remains a bit small on a laptop screen, and it is great to have hyperlinks. The report includes hyperlinks to the website and QR codes to access more detailed information. A report with contact details and names. Well done ABSA.

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | To present to shareholders the audited annual financial statements of the Company, together with the reports of the Board of Directors of the Company (Board of Directors), and the Group Audit and Compliance Committee (GACC) of the Company for the financial year ended 31 December 2019. | It is pleasing that the Annual Financial Statements (AFSs) and reports thereto are being presented to the shareholders. We however, favour a vote to adopt the AFSs.<br>The external auditors are satisfied that the AFSs fairly present the results and financial position of the company. | | |
| | To present the report of the Social and Ethics Committee of the Company for the financial year ended 31 December 2019. | It is especially pleasing to be presented with the Social and Ethics report but again we would prefer to have this put to the vote.<br>We applaud brevity in reporting but this report is brief to the point of being of little value to shareholders or users of the Report. | | |
| | **Ordinary Resolutions** | | | |
| 1 | Resolved that Ernst & Young Inc. (EY) and the designated audit partner, Ernest van Rooyen, are hereby re-appointed as the Company's external auditor to hold office until the conclusion of the next AGM. | EY are one of the big four international firms and are suitably skilled and experienced. They have been auditors of ABSA for 26 years and we oppose the retention of auditors for such a long period as it is considered to impair their independence.<br>At the 2019 AGM we supported the reappointment of EY despite their length of service as the board had rather hastily withdrawn the nomination for reappointment of KPMG as joint auditors after only 1 years' service, a decision we did not agree with.<br>Compulsory auditor rotation after 10 years will become effective in 2023, the audit committee are silent on this matter. Further they do not appear to have made any progress in appointing the required second firm of auditors. It would be preferable to have appointed the second firm of auditors to allow for some overlap before the need to replace EY.<br>Unfortunately, the audit committee report is silent on these issues, we cannot continue to support the appointment of EY after such a long term in office and no mention of a plan to replace them. | AGAINST | FOR 87.8% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 2 | Resolved that each of the directors named below in 2.1 to 2.5, who retire in terms of the provisions of the Company's Memorandum of Incorporation (MOI) on director rotation, and being eligible and available, and having offered themselves for re-election, be and are hereby re-elected in terms of section 68(2)(a) of the Companies Act by way of a series of votes, as directors of the Company | The resolutions appointing directors are the most important resolutions facing shareholders. We consider a number of factors of importance as well as considering individual directors' suitability.<br>A large board comprising 16 directors with 1 due to retire.<br>**Independence**. Classified as independent by the company 75%, 2 of which have served for 9 or more years, one retires this year and the other is not listed as independent in some parts of the Report - confusing. Executives 19%, average tenure 4 years.<br>**Continuity.** Average tenure is low at 4 years, 56% of the board including the CEO and CFO have served for 3 or less years. The Lead Independent and one of the long serving directors, he steps down this year. This will reduce average tenure and push the number of directors who have served less than 3 years to 60%. Two of the longer serving directors are 70 or older and we must anticipate that they will retire soon and with a combined service of 14 years this will exacerbate the continuity issue the board faces.<br>**Diversity.** South Africans make up 69% of the board and of the SA directors 64% are black. The company is not doing well on gender despite the fact that the chair is a woman, only 4 directors (25%) are women and no executives are female. A young board with an average age of 57, only 2 directors are 70 or older.<br>**Skills.** Detailed skills of directors are not provided however, a table of combined skills is. We are concerned that the board has insufficient skills in Information Technology given the rapid transformation of the banking sector in this area.<br>We do not have concerns regarding independence or racial and national diversity. Gender needs to be addressed as the company is not reaching its own target. Despite assurances in the report, we are very concerned about the continuity of this board with over 60% including 2 key executives having served for 3 or less year. Further, we are concerned at the low level of IT skills.<br>Directors profiles are so brief as to be almost meaningless, and much of the information had to be found elsewhere. | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 2.1 | Mark Merson as an independent non-executive director | Mr Merson, 51, is suitably skilled and experienced. He previously held an executive position with Barclays PLC but is classified as independent, this is questionable but this boards independence is not a matter of concern, continuity is of concern.<br>His attendance record was excellent and he has served on the board for 6 years and is not over-committed. | FOR | FOR 92.6% |
| 2.2 | Wendy Lucas-Bull as an independent non-executive director | Ms Lucas-Bull, 66, is the Chair of the company and is suitably skilled and experienced to fulfil this role.<br>Her attendance record was impeccable and she has served on the board for 6 years. She does not appear to be over-committed. | FOR | FOR 99.4% |
| 2.3 | Colin Beggs as a non-executive director | Mr Beggs, 71, is suitable skilled to serve on the board and has done so for 9 years, his profile in the Notice to the meeting does not list him as an independent director although he is listed as independent elsewhere, we question his independence after 9 years' service.<br>He was the chair of the audit committee and we have reservations regarding the performance of that committee. He does not continue on this committee. His attendance record was excellent. He is also a director of SAB Zenzele and Sasol where we also had concerns regarding his role as chair of the audit committee. He does not appear to be overcommitted. We support his appointment given our concerns regarding continuity of this board. | FOR | FOR 89.8% |
| 2.4 | Daniel Hodge as a non-executive director | Mr Hodge, 46, is chief compliance offer of Barclays PLC and as such is not classified as an independent director.<br>He is suitably skilled and experienced and has served on the board for 2 years. His attendance record at 80% is only just acceptable. | FOR | FOR 92.7% |
| 2.5 | Jason Quinn as an executive director | Mr Quinn, 45, is the Group Finance Director a position he has held for 3 years. He is suitably skilled and experienced to hold this position and has served with the group for 12 years.<br>His attendance record is good but not what we would expect from a senior executive. | FOR | FOR 99.6% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 3 | Resolved that the directors named in 3.1 to 3.4 below, who having been appointed by the Board after the 2019 AGM and on the dates set out below, and who, in terms of the Company's MOI, are required to be elected by the shareholders at the next AGM are hereby elected in terms of section 68(2) (a) of the Companies Act, as directors of the Company | | | |
| 3.1 | Ihron Rensburg, as an independent non-executive director (appointment effective 1 October 2019) | Mr Rensburg, 60, is suitably skilled and experienced. He is one of a number of new appointees to the board.<br>We could find no other JSE listed companies of which Mr Rensburg is a director and he does not appear to be over-committed. | FOR | FOR 99.9% |
| 3.2 | Rose Keanly, as an independent non-executive director (appointment effective 1 September 2019) | Ms Keanly, 61, brings extensive experience to the board and in particular information technology management experience which we identified as an area for focus by this board. She does not appear to be over-committed. | FOR | FOR 99.9% |
| 3.3 | Swithin Munyantwali, as an independent non-executive director (appointment effective 15 September 2019) | Mr Munyantwali, 57, is suitably skilled and experienced. He brings East African experience to the board.<br>He does not appear to be over-committed. | FOR | FOR 99.9% |
| 3.4 | Daniel Mminele, as an executive director (Group Chief Executive) (appointment effective 15 January 2020) | Mr Mminele, 55, is the newly appointed CEO of the company. He joins the company from the SA Reserve Bank and a career in banking. An experienced and steady hand which we support. | FOR | FOR 99.9% |
| 4 | Resolved that each independent non-executive director in 4.1 to 4.3 below, be and is hereby reappointed, by way of a series of votes, as members of the GACC (Group Audit and Compliance Committee) to serve until the next AGM, and further Resolved that the | As noted under 1 above and in our report last year, we are most concerned that the audit committee not only does not appear to be addressing the fact that a second auditor needs to be appointed, and are seemingly unaware that the existing auditor will have to be replaced when compulsory auditor rotation becomes effective. Their report is certainly silent on both these issues. | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | director, initially appointed as non-executive director on 15 September 2019, and from 1 March 2020 was subsequently classified as an independent non-executive director named in 4.4 below, be and is hereby appointed as a member of the GACC to serve until the next AGM | We also noted last year and again note our concern that the CEO, CFO and Chair all attend all meetings of this committee rather than attending by invitation. We are particularly concerned that the Chair attends these meetings as the King reports clearly and unambiguously note that the Chair of the company has a strategic and leadership role to play which precludes their membership of this committee.<br>The reduction in the number of members of this committee will exacerbate the fact that there are so many invitees.<br>Given our concerns regarding the performance of this committee, it is pleasing to see that the chairman of this committee for the past 2 years has not been put forward for re-election.<br>The nominees for this committee are a reasonable mix of skills and tenure as directors. Only 2 of the nominees previously served on this committee and continuity is a bit of concern but as noted above the committee did need to be refreshed. | | |
| 4.1 | Alex Darko | Mr Darko, 47, has served as a director for 5 years and served on this committee for at least the last year. | FOR | FOR 91.4% |
| 4.2 | Daisy Naidoo | Ms Naidoo, 47, has served as a director for 3 years and on this committee for at least the last year. | FOR | FOR 82.8% |
| 4.3 | Tasneem Abdool-Samad | Ms Abdool-Samad, 46, has served as a director for 2 years and on this committee for at least the last year. | FOR | FOR 99.5% |
| 4.4 | Swithin Munyantwali (subject to election as a director) | Mr Munyantwali 57 is a new appointee to the board and this committee. | FOR | FOR 99.7% |
| 5 | Placing of the authorised but unissued ordinary share capital under the control of the directors | This is a general authority subject only to the applicable laws and regulations with the only limit being that it shall not exceed 5% of the issued shares. There is no mention of price or any other terms or conditions and the directors note they have no intention at present of issuing any shares and no proper reason is provided.<br>We recognise that companies in general and banks in particular require flexibility in raising funds, but this is such a broad and unlimited authority that the directors are seeking over the ordinary shares and we are concerned that insufficient information is provided and that this could lead to the dilution of minority interests. | AGAINST | FOR 89.2% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | **Non-Binding Advisory Votes** | | | |
| 1 | Resolved to endorse, by way of a non-binding advisory vote, the Company's remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members of Board committees). | Remco reports have a difficult job balancing the need for transparency, the need for confidentiality and keeping complex remuneration policies and rewards clear and understandable. This set of reports makes good use of cross referencing thus reducing repetition and the info-graphics are helpful. We appreciate that the report is readable and does not make use of lots of accronyms.<br>It is not immediately apparent who the members of the Remuneration Committee (Remco) are as this is not listed in the report. Looking at the directors attendance register and directors profile, we deduce that the Remco is made up of 4 independent directors (Darko, Lucas-Bull, Naidoo and Pityana), two members have or will step down as directors (Cuba and Hussain) and another appears to have stepped down as a member of this committee (Beggs). This is all rather confusing and should have been covered briefly in the Report.<br>We are concerned that the CEO and CFO appear to attend by standing invitation – again this is not stated in the Report. Their attendance at meetings can add value and we support their attendance on an ad-hoc basis as and when the committee requires, but do not support standing invitations.<br>Guaranteed pay and total remuneration are benchmarked but details of the benchmarking are a bit sketchy, it appears the committee do this by comparing with published remuneration surveys. An independent review is favoured.<br>Depending on level of pay (and seniority), varying percentages of STI awards are deferred and invested in company shares or phantom share. For executive directors, 50% of the STI is so deferred and is payable in 3 equal tranches over the next 3 years. We do favour the deferral of part of the STI.<br>STI performance metrics are: Revenue 20%, Headline Earnings 50%, Profit after regulatory capital charge 20% and Organisation health 10%. That is 90% of metrics are financial. We do not see that these | AGAINST | FOR 87.2% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | metrics embrace the company strategy – more at the end of this section.<br>LTIs consist of performance shares and LTI targets are clearly set out and we applaud the clarity and openness of these targets. They are divided into threshold, target and stretch – again we agree with this policy.<br>The LTI metrics are: normalised return on equity over 3 years 30%; normalised headline earnings per share over 3 years 30%; normalised cost to income ratio and again organisational health 10%.<br>As with the STI's we note that 90% of the LTI is made up of financial metrics and again we do not see a clear link between these metrics and the company strategy.<br>There is a very high reliance on headline earnings per share<br>The Report states that group strategy is: 1) Create a thriving organisation, 2) Restore leadership in core businesses, 3) Build pioneering new propositions, 4) Build a scalable digital first business, 5) Pursue growth opportunities and 6) Play a shaping role in Africa's growth and sustainability. It goes on to outline the measures of success and we do not see a clear link between these and executive remuneration.<br>We also have concern that as a consumer driven business there appears to be no measure of customer satisfaction anywhere other than as part of organisational health.<br>The level of discretion is not clear and is consequently of concern. | | |
| 2 | Resolved to endorse, by way of a non-binding advisory vote, the Company's remuneration implementation report (excluding the remuneration of the non-executive directors for their services as directors and members of Board committees). | At the 2019 AGM 31% of shareholders opposed the adoption of the Remuneration Implementation Report and in 2018 this was 47%. No mention is made of this although a list of shareholder concerns is provided with a very brief outline of action taken.<br>Active Shareholder contacted the company to take part in the required remuneration consultation in 2019 and we were told we would be contacted once a date had been set for the consultation, we were never contacted. A SENS (Stock Exchange News Service) notice was sent | AGAINST | FOR 83.0% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | out, but all shareholders cannot be expected to monitor all SENS announcements.<br>Guaranteed Pay for executive directors did not increase in 2019 and we are told there will be no increase in 2020 either. No explanation is provided and, whilst we accept we may not be comparing apples and apples, there did seem to be changes to base pay in 2019.<br>The separation bonuses are coming to an end but once again we note that details are not provided.<br>We could not see how the STI bonus pool of R 2 378m was arrived at nor could we see how the modifier of .874 was arrived at. No details are provided of how this is split across all participants.<br>Similarly, we could not determine how the LTI awards were arrived at.<br>Given our concern raised under the Remuneration Policy resolution above regarding the fact that we could not see the clear link between company strategy and executive remuneration and our inability to see how the STI and LTI amounts were arrived at, we oppose this resolution. | | |
| 3 | Advisory vote: Climate change risk and opportunity disclosure | The company has presented this non-binding advisory vote as *the Board values shareholders' views and will review the voting*. We would far prefer a binding vote but recognise that this resolution is a step in the right direction.<br>In terms of this resolution, the company will include in next years Report the following:<br>*a) the quantum of its loans to carbon-related assets and the percentage to total loans;*<br>*b) a description of any significant credit concentration to carbon-related assets and how it manages the associated risks; and*<br>*c) its financing of climate-related opportunities*<br>The risks to society at large and to businesses in particular of climate change cannot be underestimated.<br>We therefore, support this advisory resolution. | FOR | FOR 99.4% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | **Special Resolutions** | | | |
| 1 | Remuneration of non-executive directors. | Non-executive directors' remuneration increases by 4.5% across the board this year after an increase last year of 5% other than some significant increases for some specific committee fees.<br>The Chairman's fee is on a par with other banking groups however board fees are significantly higher than that of other banks.<br>The chair of committees is paid 2 to 2.5 times the members fee, which is within the norms.<br>The fees are on the higher end, for a bank that has not delivered stellar results and there is no attendance fee as a component of total fees, which we regard as minimum check on performance. | AGAINST | FOR 98.6% |
| 2 | Increase in authorised ordinary share capital | This resolution seeks to increase the authorised share capital of the company by just under 1.3% (per our calculation). The reasons and effect given are that this will enable the company to issue future shares up to 5% of the current issued shares.<br>Although we oppose ordinary resolution 5 above in which the directors seek authority over those shares, we do not oppose the increase in authorised share capital. | FOR | FOR 90.6% |
| 3 | General authority to repurchase the Company's securities. | This is a general authority for the company or any of its subsidiaries to purchase the shares of the company subject to the law and regulations at a price no more than the average listed price plus 10%, and the total such purchases shall not exceed 5% of the issued shares of the company.<br>The motivation for the permission for the purchase of the shares, essentially states that it is allowed, therefore the board should be empowered so to do. The resolution further states that *the Board undertakes that this authority will only be used if the circumstances are conducive and appropriate for such repurchases* but we are given no indication of what such circumstances could be.<br>We are concerned that any such repurchases will effectively reduce the interests of minority shareholders and as such oppose the resolution. | AGAINST | FOR 98.4% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 4 | Financial assistance to a related or inter-related company. | The need to be provide financial assistance to subsidiaries and other related companies is unquestioned. However, this resolution goes beyond that and of particular concern is the right to provide financial assistance to members of related or inter-related persons.<br>We are sure this is all fair and proper but the resolution provides insufficient information to make a proper informed decision. | AGAINST | FOR 96% |

**OUCOME OF THE AGM**

The AGM was, by South African standards, not very well attended with less than 74% of shares voted in person or by proxy.

All resolutions were passed. A surprising 88% of shareholders appointed the reappointment of the auditors who have served in this position for far too long.

Some of the directors did not get overwhelming support which is unusual in this country, one director received less than 90% support possibly because of his age or his role in the audit committee. The Barclays PLC directors were resisted by some shareholders.

It is pleasing that there is growing resistance to the placing of the shares under the control of the directors.