



# APPLICATION OF THE KING IV REPORT ON CORPORATE GOVERNANCE FOR SOUTH AFRICA 2016 (KING IV)

The group endorses King IV™ and strives towards compliance therewith as further set out herein.

## Approach to governance

The key applications and explanations by the group of the principles contained in King IV™ are explained in the table below. We account therefore in accordance with IFRS and do so in the format of integrated reporting, while compliance with the Companies Act of South Africa and the JSE Listings Requirements is enshrined in our business model.

We further acknowledge our responsibility, resulting from our fiduciary duties and duties of care, skill and diligence, to ensure that business within the group is conducted with transparency, prudence, fairness, accountability and integrity.

The company is in compliance with the provisions of the Companies Act of South Africa and the relevant laws governing its establishment, specifically relating to its incorporation. Furthermore, the company is operating in conformity with its Memorandum of Incorporation (MOI).

## Governance outcome one: Ethical culture

Principle 1	Nictus application
<p><b>Leadership</b> “The governing body should lead ethically and effectively”</p>	<p>The board has adopted the ideal future, mission, code of conduct and core values of Nictus and sets an example by actively pursuing and acting within the ambit of the code of conduct.</p> <p>The ethical approach is further established with the appointment of its balanced spread of independent non-executives, pursuing the achievement of sustainable economic, social and environmental performance in a responsible manner.</p> <p>The board adheres to its fiduciary duties and its functions are summarised in a board charter. Each member is held accountable to the rest of the board for their leadership in an evaluation process.</p>
Principle 2	Nictus application
<p><b>Organisational ethics</b> “Govern the ethics of the organisation in a way that supports the establishment of an ethical culture”</p>	<p>The board, with the assistance of management and the social and ethics committee, requires all employees to sign the board-approved code of conduct, which forms the foundation for ethics within the organisation, as an undertaking to conform thereto, thereby creating awareness among employees of the group’s ethical compliance requirements.</p> <p>The board sets an example by undertaking to conform to the code of conduct themselves.</p> <p>Nictus’ code of conduct is disclosed on page 2 of this integrated annual report and is available on the group’s website.</p> <p>The social and ethics committee engages with stakeholders directly or through delegated functions through management to remain informed about the level of ethics that the group maintains.</p> <p>The board is of the opinion that a strong ethical culture is key in building strong and lasting stakeholder relationships and maintaining an internal talent pool to ensure growth and sustainability of the group with the appropriate succession.</p>



## Governance outcome one: Ethical culture continued

Principle 3	Nictus application
<p><b>Responsible corporate citizenship</b>                      “Ensure that the organisation is and is seen to be a responsible corporate citizen”</p>	<p>The board recognises the Constitution of South Africa as the supreme law, together with the other laws, standards and the group’s own policies and procedures, and considers how to interpret and apply them to the organisation’s activities in an effort to be and be seen as a responsible corporate citizen.</p> <p>With the assistance of board committees, executive management, the company secretary, a function outsourced to Veritas Eksekuteurskamer Proprietary Limited, regulators and professional service providers, the board gathers its own insights into the corporate governance of the group and utilises these insights, together with reports and information received, to effectively oversee and ultimately take responsibility for the corporate governance of the group.</p>

## Governance outcome two: Performance and value creation

Principle 4	Nictus application
<p><b>Strategy and performance</b>                      “The governing body should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process”</p>	<p>Strategy, risk, opportunities, performance and sustainability, based on an ethical foundation, are all key matters dealt with in the integrated business plan of the group, which is developed by the managing director and supported by the board.</p> <p>These factors, including viability assessments, capital, solvency, liquidity and going concern status, are examined in detail, and monitored throughout the year to determine their individual and combined effects on the business and drive a strategy that should create exceptional value for shareholders and other stakeholders alike.</p>
Principle 5	Nictus application
<p><b>Reporting</b>                      “The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance and its short-, medium- and long-term prospects”</p>	<p>The board, assisted by the audit and risk committee and executive management, has established controls and processes, including consultations with professional service providers to independently gather, review and report adequate information regarding the group’s financial and sustainable performance and the integrity of the integrated annual report. This includes oversight over information published in terms of the King IV™ disclosure requirements.</p> <p>The board has assumed responsibility for the approval of interim communications and the chairperson of the board ultimately approves all SENS announcements.</p> <p>Nictus is committed to transparent and effective communication with all stakeholder groups. Such communication takes place through formal and informal channels, including the group’s website.</p>



## Governance outcome three: Adequate and effective control

Principle 6	Nictus application
<p><b>Primary roles and responsibilities of the governing body</b></p> <p>“The governing body should serve as the focal point and custodian of corporate governance in the organisation”</p>	<p>The board acknowledges its responsibility to steer the organisation, and to review and approve its strategic direction based on the principles of good corporate governance.</p> <p>The board has established committees to assist it to fulfil its duties. The committees are all constituted by charters, which are considered and approved by the board annually. The board has ensured that each committee has the necessary knowledge, skills, experience and capacity to effectively execute its delegated duties.</p> <p>The board charter detailing the composition of the board, its committees and attendance at meetings is summarised in the table presented on page 22 of this integrated annual report.</p> <p>The board believes that it has discharged its responsibilities in relation to its own charter, and that its composition, the composition of its committees and required attendance of meetings, facilitate a clear balance of power and authority at board level. Board decisions are taken with the consensus principle.</p>
Principle 7	Nictus application
<p><b>Composition of the governing body</b></p> <p>“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”</p>	<p>The appointment of directors is a formal process, which is overseen by the remuneration and nomination committee.</p> <p>The group is committed to appointing suitably qualified and experienced directors and acknowledges the responsibility for ensuring that the board attracts and appoints suitable members with an appropriate mix of skills, knowledge, experience, age and independence, with due consideration for gender, culture and race diversity, taking into account the nature, scale and complexity of the business and availability of suitable candidates. The board considered and applied these principles during the reporting period and considers the appointment of Sarita Martin appropriate when measured against same.</p> <p>The group supports the principles and objectives of appropriate broader diversity at board level and has adopted a policy on the promotion of broader diversity.</p> <p>No voluntary target has been set for any appointment of executive, non-executive and/or alternate directors to the board in terms of the diversity indicators mentioned.</p> <p>The board and committees are sufficiently represented by independent non-executive directors and are independently chaired, with the exception of the social and ethics committee, which is chaired by a non-executive director and which has no independent non-executive director representation. The social and ethics committee is not comprised of a majority of non-executive directors. The board is satisfied that the current composition of the committee does not detract from the performance and responsibilities of it.</p> <p>The board comprises two executive directors, three independent non-executive directors and two non-executive directors. For the financial year under review, one of the independent non-executive directors had served on the board for longer than nine years. The chairperson of the board, Professor Barend J Willemse, who is categorised and confirmed as independent, has been on the board since 2010. Although serving on the board for more than nine years is relevant to the determination of a non-executive director’s independence, the board recognises that an individual’s independence cannot be determined arbitrarily on the basis of a set period of time. It is the board’s view that continued tenure brings considerable stability to the board, that has benefited greatly from the presence of individuals who have over time gained valuable insight into the group and its markets.</p>



**Governance outcome three: Adequate and effective control** continued

<p><b>Principle 7</b> continued</p>	<p><b>Nictus application</b></p> <p>Directors' independence is judged from the perspective of a reasonable and informed third party, based on prevailing circumstances, the definition of independence in terms of the Companies Act of South Africa, the King IV™ guidance in terms of the assessment of independence (substance over form basis), conflicts of interest (whether perceived or actual) and other relevant considerations. Attention is given to ensure that independent non-executive directors remain independent in character and judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by management and the board.</p> <p>Annual independence evaluations are conducted for directors whose tenure exceeds nine years.</p>
<p><b>Principle 8</b></p> <p><b>Committees of the governing body</b>          "The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties"</p>	<p><b>Nictus application</b></p> <p>Well-structured board committees assist the board in fulfilling its duties. Board committees are appropriately constituted and comprise members of the board, with the exception of the social and ethics committee, which has a managing executive as a member. The board committees' authority, objectives and functions are governed by clearly defined terms of reference, mandates and charters, which are subject to annual revision.</p> <p>Members for each committee are selected according to their suitability in terms of their qualifications, experience and the prescribed composition of the committees.</p> <p>The group has the following committees:</p> <ul style="list-style-type: none"> <li>• Audit and risk committee;</li> <li>• Remuneration and nomination committee;</li> <li>• Social and ethics committee; and</li> <li>• Investment committee.</li> </ul> <p>The governance framework detailing the composition and functions of board committees is presented on page 23 of this integrated annual report.</p>
<p><b>Principle 9</b></p> <p><b>Evaluation of the performance of the governing body</b>          "The governing body should ensure that the evaluation of its own performance and that of its committees, its chairman and its individual members, support continued improvement in its performance and effectiveness"</p>	<p><b>Nictus application</b></p> <p>Evaluations of the board, its audit and risk committee and individual directors are conducted internally through a self-assessment process annually, and consideration is given to outsourcing such evaluations, as and when the board deems necessary.</p> <p>The board utilises methodology developed by Ram Charan in order to identify patterns revealing areas which need to be addressed or focused on to increase the overall progressiveness of the board, with the building blocks being group dynamics, appropriate and effective information architecture and focus on substantive issues.</p> <p>Although areas of improvement were identified, the board concluded during their annual assessment that they were sufficiently progressive in order to provide the necessary guidance to management in executing the group's strategy.</p>



**Governance outcome three: Adequate and effective control** continued

Principle 10	Nictus application
<p><b>Appointment and delegation to management</b></p> <p>“The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities”</p>	<p>The board appoints a competent and appropriately experienced managing director, who is responsible for leading the implementation and execution of approved strategy, policy and operational planning and reporting to the governing body. The board, with the assistance of the remuneration and nomination committee, continuously considers succession for the managing director.</p> <p>The board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibility.</p> <p>The board has appointed Veritas Eksekuteurskamer Proprietary Limited, a competent, suitably qualified and experienced company secretary and approves of Veritas Eksekuteurskamer Proprietary Limited’ service contract and remuneration. The ability of Veritas Eksekuteurskamer Proprietary Limited, its board and employees, to perform its company secretarial duties and its performance are assessed annually by the board taking into account a set of pre-agreed deliverables. Veritas Eksekuteurskamer Proprietary Limited boasts decades of experience and the board has considered and is satisfied with the competence, qualification and experience of the company secretary. The company secretary has unfettered access to the board, however, care is taken to monitor the arm’s-length relationship with the board and written agreements are in place to govern the relationship between the parties.</p> <p>The company secretary reports to the board, through the chairperson, all statutory duties and functions performed in relation to the board. Other duties and administrative matters are reported to executive management.</p>
Principle 11	Nictus application
<p><b>Risk governance</b></p> <p>“The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives”</p>	<p>Nictus’ risk methodology includes the consideration and implementation of appropriate risk responses to identified risks, based on the strategic objectives of the group. The effective monitoring of risk is achieved at Nictus through a combination of daily and periodic activities undertaken by management at various levels in the organisation, culminating in the activities of executive management and the audit and risk committee, which oversee the risk management process at Nictus.</p> <p>The board considers and determines the levels of risk tolerance as well as risk appetite during its periodic review of the group’s risk profile.</p> <p>This risk profile determines the ambit within which management is allowed to take on risk-inclined projects. The audit and risk committee provides oversight of Nictus’ risk management activities and reports formally on its findings and recommendations to the board annually.</p> <p>Details pertaining to the high-level risks of the group are presented on pages 6 to 8 of this integrated annual report.</p>
Principle 12	Nictus application
<p><b>Technology and information governance</b></p> <p>“The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives”</p>	<p>Nictus promotes an ethical IT governance culture and a common IT language. IT is aligned with the performance and sustainability objectives of the group from a safeguarding, strategic and business process perspective.</p> <p>The board has delegated the responsibility for the implementation of an IT governance framework to management.</p> <p>All IT matters are referred to the group’s outsourced IT consultants, who advise on the most appropriate technological solutions for the group. Executive management makes recommendations to the board, at which level decisions are taken.</p> <p>Continued focus is given to the effectiveness and improvement of operating systems in order to increase functionality and promote enhanced reporting capabilities for better management.</p> <p>The audit and risk committee annually considers independent assurance on the effectiveness of the technology and information, including outsourcing.</p>



**Governance outcome three: Adequate and effective control** continued

Principle 13	Nictus application
<p><b>Compliance governance</b>                      “The governing body should govern in compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen”</p>	<p>Nictus has a compliance culture with a legal compliance programme, which supports efforts to identify and comply with applicable laws and regulations.</p> <p>Compliance also forms part of Nictus’ code of conduct. The board and the audit and risk committee are regularly briefed on new laws and regulations by the company secretary, professional service providers and JSE sponsors.</p> <p>The company secretary acts as legal compliance officer, while certain compliance functions in the insurance segment are outsourced to independent, suitably experienced and qualified service providers.</p> <p>One of the key areas focused on during the current reporting period was to navigate the ever-evolving and dynamic implications of COVID-19. Additional reporting requirements and changing legislative requirements impacting the companies within the group were identified and complied with, within the context, guidance and interpretations available at any given point in time.</p>
Principle 14	Nictus application
<p><b>Remuneration governance</b>                      “The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term”</p>	<p>The remuneration and nomination committee is responsible for determining just and equitable remuneration policies for the group and making related recommendations to the board.</p> <p>The group’s remuneration policy incorporates the recommended practices of King IV™. It aims to appeal to and retain those individuals who will support and contribute towards achieving the group’s desired results and strategy.</p> <p>The policy, philosophy and strategy are encapsulated in the following:</p> <p>Remuneration should:</p> <ul style="list-style-type: none"> <li>• Contribute towards appealing to and retaining motivated and loyal employees;</li> <li>• Reflect a direct correlation with the vision and results of the group;</li> <li>• Be reviewed and benchmarked annually;</li> <li>• Support the strategy of the group; and</li> <li>• Reward performance and motivate employees.</li> </ul> <p>The remuneration report, policy and implementation report are presented on pages 24 to 27 of this integrated annual report.</p>
Principle 15	Nictus application
<p><b>Assurance</b>                      “The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation’s external reports”</p>	<p>Nictus has developed a combined assurance model, which provides a coordinated approach to assurance activities in respect of key risks facing the group, with oversight by the audit and risk committee. This includes internal risk management, compliance functions and internal and external audit reporting.</p> <p>Nictus has a risk-based internal audit function, with a charter approved by the audit and risk committee and the board. Internal audit focuses on governance, risk management, the system of internal controls, follows a systematic approach, and investigates and reports on control deficiencies, fraud, corruption, unethical behaviour and irregularities.</p>



## Governance outcome four: Trust, good reputation and legitimacy

Principle 16	Nictus application
<p><b>Stakeholder engagement</b>                      “In the execution of its governance roles 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”</p>	<p>The board tasks management with the management of stakeholder relationships, including the identification of important stakeholder groups and the development of strategies and policies to manage these relationships effectively.</p> <p>Constructive stakeholder engagement within the group is facilitated through formal and informal mechanisms and shareholders are encouraged to attend the group’s annual general meeting.</p> <p>Nictus strives to achieve an appropriate balance between various stakeholder groups’ interests and expectations in taking decisions in the best interest of the group and ultimately its shareholders, who are treated equitably.</p> <p>The board and the group’s external auditor will be available at the annual general meeting to respond to any shareholder queries.</p>
Principle 17	Nictus application
<p><b>Responsible investing</b>                      “The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests”</p>	<p>The function of the investment committee is to evaluate and to advise the board on all group and subsidiary company investments of substantial monetary value or business importance, including the involvement in the formulation of investment policies, principles and practices to achieve optimum return on investments. The investment committee is chaired by the chairperson of the group and further consists of the group managing director and the group financial director.</p>