# Absa Group Limited

Integrated Report 2021

For the year ended 31 December 2021

# 2021 Integrated Report

Our Integrated Report is our primary report for investors. It is supplemented with various online disclosures that meet the diverse information needs of the Group's stakeholders.

### Financial and risk disclosures

- 2021 Annual Consolidated and Separate Financial Statements
- 2021 Summarised Annual Consolidated Financial Statements
- 2021 Pillar 3 Risk Management Report
- 2021 Pillar 3 Risk Management Report – Additional Tables
- 2021 Financial Results Booklet
- 2021 Financial Results Presentation

### Environmental, Social and Governance disclosures

- 2021 Environmental, Social and Governance (ESG) Report
- 2021 Remuneration Report
- 2021 Broad-Based Black Economic Empowerment (B-BBEE) Report
- 2021 Principles for Responsible Banking (PRB) Report (May 2022 publication)
- 2021 Task Force on Climate-related Financial Disclosures (TCFD) Report (May 2022 publication)

### Shareholder information

- 2022 Notice of Annual General Meeting (AGM)
- Form of Proxy

*All of the reports listed are available on www.absa.africa. Comments or queries regarding these documents can be sent to groupsec@absa.africa.*

### Sustainable Development Goals (SDGs)

4 QUALITY EDUCATION — SDG 4

5 GENDER EQUALITY — SDG 5

7 AFFORDABLE AND CLEAN ENERGY — SDG 7

8 DECENT WORK AND ECONOMIC GROWTH — SDG 8

10 REDUCED INEQUALITIES — SDG 10

13 CLIMATE ACTION — SDG 13

15 LIFE ON LAND — SDG 15

16 PEACE, JUSTICE AND STRONG INSTITUTIONS — SDG 16

### King IV™

King IV application

### Navigation

Weblink

Online download/ Diving deeper for additional reading

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# Reading this report

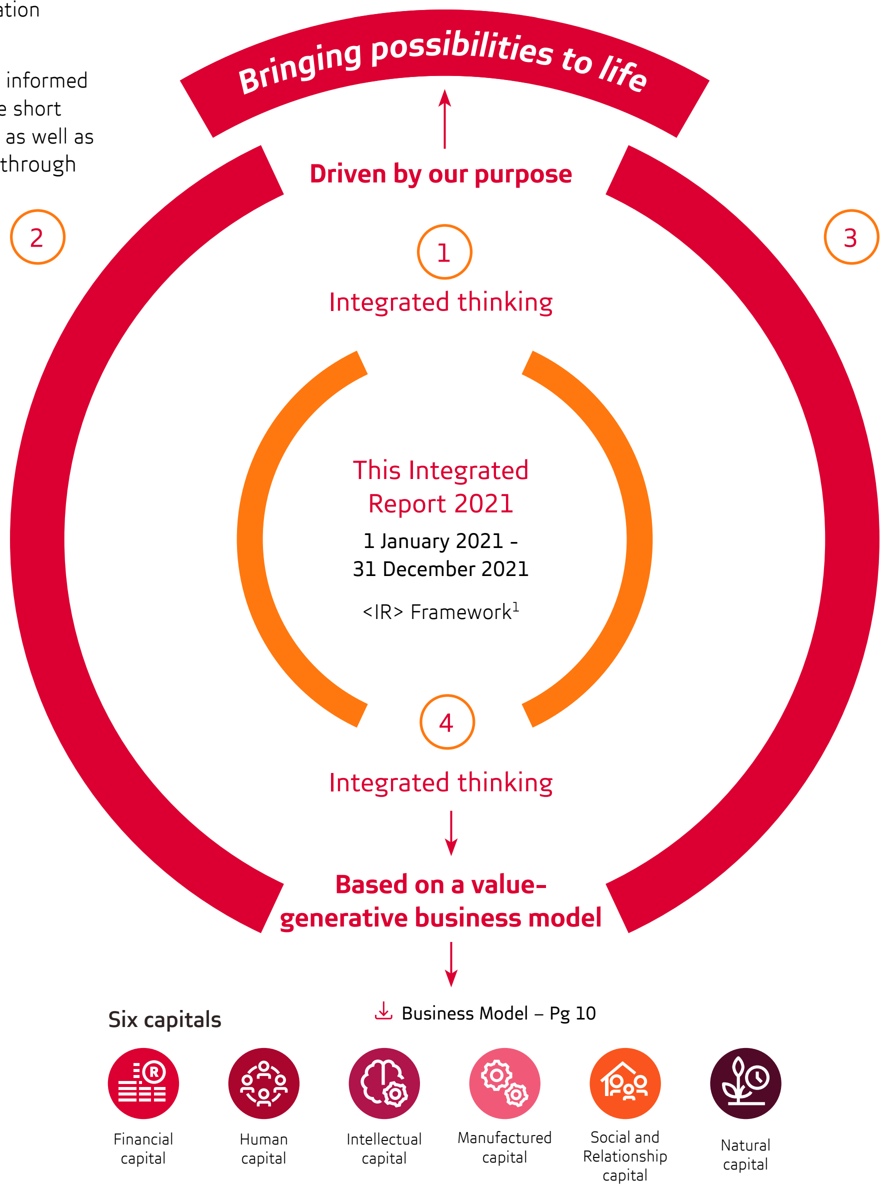
Absa Group Limited (Absa or the Group) strives to incorporate the principle of integrated thinking into our business and our reporting. This Integrated Report is our primary report to our investors and contains information relevant to other stakeholders.

Our Integrated Report is intended to enable stakeholders to make informed assessments of our ability to create, preserve or erode value in the short term (less than 12 months) and medium term (one to three years) as well as our endeavours to secure long-term value beyond these horizons through our purpose-driven pursuits.

## Strategic intent (2)



This report provides context to what we deem our material matters – those matters with the ability to significantly influence value creation over the short, medium, and long term. Our materiality determination process is discussed in further detail on page 30.




## Performance against strategy (3)



*Frameworks used in preparation of disclosures*

*International Financial Reporting Standards (IFRS)*

*Remuneration policy approved by 85% of shareholders*

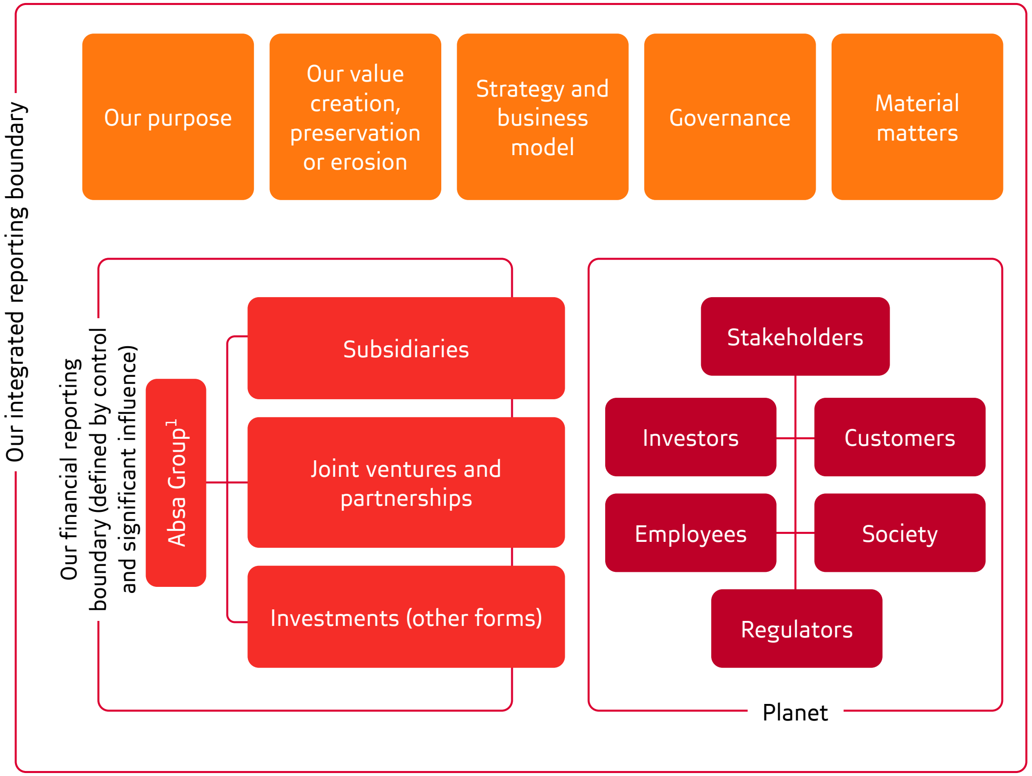
*King IV Report on Corporate Governance for South Africa, 2016™ (King IV)*

*[1] International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework.*

## Integrated reporting scope and boundary

We aim to provide shareholders with a concise yet sufficiently informed view of the Group's strategy, governance, performance and prospects, in the context of our operating environment reporting on how value is created, protected or eroded over time.

The financial information reporting boundary is defined by control and significant influence over entities as indicated in the diagram below. In some cases, environmental and social boundaries only encompass South African operations and are noted as such. Strategic and governance information boundaries expands to the Group's key risks, opportunities and outcomes, including matters relevant to our primary stakeholders. Matters attributable to other stakeholders are included if material, that is, if it could significantly affect the Group's ability to create and, preserve value, or lead to value erosion, over the short, medium and long term.




[1] *A list of subsidiaries and consolidated structured entities are outlined in note 48.2 of the Group consolidated annual financial statements.*

## Normalised financial results

As part of Barclays PLC's (Barclays) divestment of its controlling interest in Absa, it contributed R12.6 billion, mainly in recognition of the investments required to separate the businesses (the Separation). We report both IFRS financial results and a normalised view, which adjusts for the impact of the Separation from Barclays and adjust for the interest income on Barclays' separation contribution, hedging linked to the separating activities, operating expenses (including amortisation of intangible assets) and other expenses. Normalisation does not affect divisional disclosures. Although the Separation was successfully completed in 2020, we have continued to reflect significant post Separation impacts on the Group's financial results. Unless otherwise indicated, we present our financial results on a normalised basis.

As a result of the completion of the Separation during 2020, it has been decided only IFRS capital ratios will be reported going forward, due to the insignificant difference between IFRS and normalised capital ratios. Prior reporting periods' ratios have been restated accordingly.

## Reportable segment changes and restatements

In line with the Group's vision to be a truly Pan-African bank, Retail and Business Banking (RBB) and Corporate and Investment Bank (CIB) were managed on a Pan-African basis. The Absa Regional Operations (ARO) centre, which largely provided support to the in-country RBB teams, was merged into RBB South Africa (SA). RBB ARO is now run alongside the existing RBB SA businesses. CIB was already set up as a Pan-African business with support provided by the CIB centre. The Group's operating segments were updated to reflect the change in the operating model.

A portion of the Commercial Property Finance portfolio, previously reported in RBB SA, has been moved to CIB in line with portfolio segmentation criteria.

We moved the ARO term debt book from Corporate ARO to the Investment Banking Division ARO to align with the SA statutory reporting structure.

The Group continued refining its cost allocation methodology, resulting in the restatement of operating expenses between, and within, segments.

The Group has identified a statement of financial position misclassification between loans and advances to banks and loans and advances to customers as well as deposits from banks and deposits from customers. Refer to note 1.21.1 of the Group consolidated annual financial statements for further details.

These changes resulted in the restatement of the business portfolios' financial results for comparative periods as well as the presentation of the statement of financial position. There is no impact on the overall financial position or net earnings of the Group.

## Reporting period and forward-looking statements

This report covers the period from 1 January 2021 to 31 December 2021. Notable or material events after this date and until the approval of this report on 31 March 2022 are included. Statements relating to future operations and the performance of the Group are not guarantees of future operating, financial or other results and involve uncertainty as they are based on assumptions of future developments, some of which are beyond our control. Therefore, the results and outcomes may differ. The ongoing impact of COVID-19 has had a significant influence on our business, operational, and financial performance. Given continued levels of uncertainty, our approaches, planning, and stress testing exhibit a higher than usual level of uncertainty as to selected outlook and forward-looking statements. Shareholders should consider the full published reporting suite on *www.absa.africa* as part of any investment decision.

## Process disclosure and assurance approach

Our Integrated Report process began with the review of the material matters for reporting. Our deep-dive strategy review, in which the Board was actively engaged, formed a key input. Content gathering for these disclosures included engagements with and submissions from business units, as well as drawing from Board and Board committee submissions. We apply a risk-based, combined assurance approach over the Group's operations. Therefore, internal controls, management assurance, compliance, internal audit reviews, and the services of independent external assurance providers support the accuracy of the disclosures within our published reports. In line with their respective mandates, specific reports are reviewed and recommended to the Board for approval by the Disclosure, Social, Sustainability and Ethics, Remuneration, Directors' Affairs, Group Audit and Compliance, Information Technology, and Group Risk and Capital Management committees. The Board takes final accountability for the approval of the Group's external disclosures.

Ernst & Young Inc. and KPMG Inc. jointly audited our annual financial statements. PricewaterhouseCoopers Inc. conducted limited assurance on the total energy use and carbon emissions indicators. Empowerdex verified our B-BBEE rating. The scope and conclusions of these can be found in the Limited Assurance Report, the Group's B-BBEE certificate and annual financial statements, all of which are available on our Group website at *www.absa.africa/absaafrica/investor-relations/annual-reports/.*

## Board approval

Supported by the Disclosure Committee, the Board acknowledges our responsibility for the integrity of the Group's external reporting. This report provides material and relevant information to providers of financial capital to enable informed capital allocation decisions, while supplying information relevant to broader stakeholders.

This report is presented in accordance with the International Integrated Reporting <IR> Framework (2021). It addresses all material matters influencing Absa's ability to create, preserve or erode value in the short, medium, and long term. It is our opinion that this Integrated Report presents a fair and balanced view of our performance and outlook.

The Board approved this report on 31 March 2022.


Alex Darko


Daisy Naidoo


Francis Okomo-Okello


Fulvio Tonelli


Ihron Rensburg


Jason Quinn


John Cummins


Nonhlanhla Mjoli-Mncube


Punki Modise


René van Wyk


Rose Keanly


Sello Moloko (Chairman-designate)


Swithin Munyantwali


Tasneem Abdool-Samad


Wendy Lucas-Bull (Chairman)

## Absa – brave, passionate, ready



# Absa at a glance

Absa is a Pan-African group, inspired by the people we serve and determined to be a globally respected organisation of which Africa can be proud. We are committed to finding tailored solutions to uniquely local challenges, and everything we do focuses on creating value for our stakeholders.

As a financial services provider, we play an integral role in the economic life of individuals, businesses, and nations. We help create, grow, and protect wealth through partnerships in economic development while playing a shaping role in Africa's growth and sustainability.

## *We bring possibilities to life*

We meet every challenge with tenacity, ingenuity, positivity and creativity by doing things in a way that is unique to our continent.

## *That is Africanacity*

We serve customers through an extensive branch and self-service terminal network, digital channels, financial advisers, relationship bankers and dealerships, originators, alliances, and joint ventures.

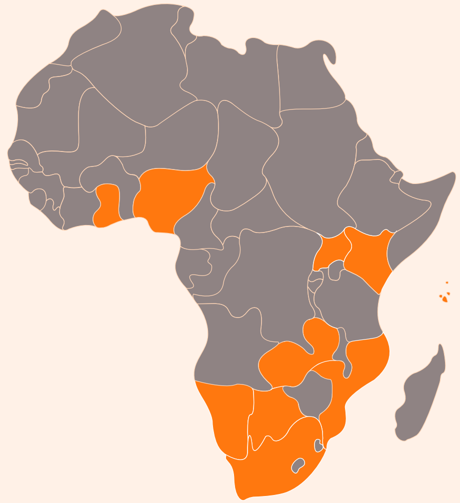
| | | |
|---|---|---|
| **15** countries | **989** branches | **8 668** ATMs |
| **35 267** employees | **123 153** point-of-sale (PoS) devices | **2.7 million** digitally active customers |

**Diving deeper:** Ways to do your banking, page 8, provide an overview of our physical and digital footprint.

**Absa Group Limited, listed on the Johannesburg Stock Exchange (JSE), is one of Africa's largest diversified financial services groups.**

| | | |
|---|---|---|
| **R1 134 billion** gross loans and advances (2020: R1 058 billion) | **R1 174 billion** deposits (2020: R1 048 billion) | **R129.3 billion** market capitalisation (2020: R101.6 billion) |

| | Employees | PoS | ATMs | Branches | Founded |
|---|---|---|---|---|---|
| Botswana | 1 096 | 4 761 | 114 | 32 | 1950 |
| Ghana | 1 145 | 884 | 166 | 63 | 1917 |
| Kenya | 2 188 | 5 213 | 208 | 84 | 1916 |
| Mauritius | 681 | 892 | 40 | 11 | 1919 |
| Mozambique | 733 | 1 340 | 93 | 45 | 2002 |
| Seychelles | 252 | 1 405 | 21 | 6 | 1959 |
| South Africa | 25 908 | 104 877 | 7 613 | 616 | 1888 |
| Tanzania[1] | 1 411 | 866 | 234 | 62 | 1945 |
| Uganda | 874 | 1 192 | 77 | 39 | 1927 |
| Zambia | 784 | 1 723 | 102 | 31 | 1918 |



| | | | | |
|---|---|---|---|---|
| Czech Republic[2] | Namibia[3] | Nigeria[3] | UK[4] | USA[3, 4] |
| 139 employees | 1 employee | 15 employees | 30 employees | 10 employees |

[1] Absa Bank Tanzania and National Bank of Commerce combined.
[2] Technical (IT support resources to the Group).
[3] Representative office.
[4] Securities entity.

# Our structure, products and services

**We deliver a wide range of financial products and services through two Pan-African customer-facing segments to meet the needs of our customers.**

| | RBB | CIB |
|---|---|---|
| **Key metrics**<br>**Diving deeper:** 2021 Financial Results Booklet | **R670 billion**<br>Gross loans and advances<br>(ARO R69.5 billion)<br><br>**R570 billion**<br>Deposits<br>(ARO R101.4 billion)<br><br>**R10.2 billion**<br>Headline earnings<br>(ARO R0.5 billion)<br><br>**18.5%**<br>Return on regulatory capital<br>(ARO 5.0%) | **R457 billion**<br>Gross loans and advances<br>(ARO R73.9 billion)<br><br>**R482 billion**<br>Deposits<br>(ARO R88.4 billion)<br><br>**R7.8 billion**<br>Headline earnings<br>(ARO R2.6 billion)<br><br>**21.6%**<br>Return on regulatory capital<br>(ARO 29.7%) |
| **Serving** | Individuals; micro, small and medium enterprises; regional and local corporates; financial institutions; non-governmental organisations and public sector institutions. | Global, regional, and mid- to large corporates including Global Development Organisations; financial institutions and public sector institutions. |
| **Presence**[1] | South Africa, Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, Tanzania, Uganda, and Zambia. | South Africa, Botswana, Ghana, Kenya, Mauritius, Mozambique, Tanzania, Uganda and Zambia with representative offices in Namibia and Nigeria and an international presence in the United Kingdom and the United States of America. |
| **Products and services**<br>**Diving deeper:** 2021 ESG Report (102-2) | Comprehensive suite of banking and insurance offerings, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products, and card-acquiring services. | Specialist solutions across corporate and transactional banking, investment banking, financing, risk management, advisory products and services. |
| **Areas of differentiation** | • One of the largest distribution networks in Africa<br>• Full bank offering with integrated insurance products and a clear focus on customer value management<br>• Strong brand recognition<br>• Enhanced digital capabilities<br>• A stable customer base with improving retention and cross-selling capabilities<br>• Strong ecosystems and partnerships in key sectors, including home loans and vehicle finance<br>• Robust credit and collections capability<br>• Strong secure lending capabilities<br>• An engaged and energised workforce. | • Over 100 years of experience on the African continent with global connectivity and local differentiation<br>• Leading industry expertise in renewable energy, mining and resources, infrastructure, oil and gas and telecoms<br>• Consistently recognised as an industry leader in investment banking, research and cash management<br>• Fixed income and foreign exchange market maker in Pan-African transactional banking platforms in all our present markets<br>• Sector expertise and thought leadership across a number of key sectors driving African economies<br>• Strong stakeholder relationships. |

[1] Banks are wholly owned apart from the following in which we have majority stakes: Botswana 67.8%, Kenya 68.5%, Mozambique 98.7%, NBC Tanzania 55% and Seychelles 99.8%.

# Ways to do banking

## Banking App

The Banking App is the safest way to bank, and customers do not need any data or Wi-Fi to use it. Customers using the app have free protection through a digital fraud warranty. All customers need is a smartphone to bank wherever and whenever. The Absa scan-to-pay functionality (QR payments) on the banking app makes it easy to pay anywhere.

## NovoFX mobile app

is an intuitive interface that allows users to remit funds internationally. NovoFX facilitates outward international payments to anyone with a bank account. It allows individuals to send money anywhere in the world quickly, easily and safely, provided they have met regulatory obligations of those countries.

## Self-service Banking

offers convenient banking services on the go. With a phone call, customers can obtain settlement letters, account balances, tax certificates, Absa Rewards redemptions and more. The calls are secure which provides the peace of mind to bank with ease.

## ATMs, branches and PoS devices

An extensive physical footprint across 15 countries comprising of 989 branches, 8 668 ATMs and 123 153 PoS devices.

**Diving deeper:** Absa at a glance page 6.

## Cell phone Banking

can be done using any type of phone and requires no downloads, no data or airtime. Customers can transfer money, buy airtime and electricity, and do tons more by dialling *120*2272#.

**Hello Money** Customers dial *161*234# to access Hello Money without the need for data. Customers can send money to anyone via CashSend – even if the receiving party does not have an account.

**Timiza (Kenya)** Customers can obtain an instant loan, send money, pay bills or purchase airtime and obtain insurance when using their phones and the Timiza app. Customers can also save and earn returns with Absa's Timiza Savings Account.

**JUMO (Tanzania, Ghana)** is a mobile financial services platform for mobile network operators and banks. The platform facilitates digital financial services such as credit and savings in emerging markets by way of USSD short codes.

## Absa Online Banking

keeps improving. The online banking platform is designed to make banking easier, quicker and better. We offer a superior banking experience so customers can spend less time navigating and more time banking.

## Call centres

Sales, service, and general enquiries. Interactive voice response capability.

## MasterPass Wallet

MasterPass is a digital wallet that stores the payment and delivery information of a customer's debit and credit cards in one central, secure location. Absa MasterPass makes the shopping experience safe, fast and easy.

## Digital ways to pay with partners

These include Apple Pay, Fitbit Pay, Garmin Pay and Samsung Pay. Customers can pay using compatible smartwatches, smartphones or tablets.

**walletdoc** stores customers' bills and keeps a record of their accounts and reference numbers to make it easier to make future payments.

## ChatBanking

is a world-first secure banking service which allows customers to bank using Facebook or WhatsApp.

# Absa in the African banking context

The African market contains a broad spectrum of local, regional, and global banks as well as emerging fintechs and digital players. The table below provides a view of the Group's position relative to our most significant peers in each country.

| | GDP[2] | GDP growth[3] | Population[3] | Banking revenue pool[2] | Number of banks | % of total banking income held by top five banks | Absa relative to peers[1]: Rank by income | Return on equity | Cost-to-income |
|---|---|---|---|---|---|---|---|---|---|
| Botswana | US$15.9bn | 7.4% | 2.4m | R13.5bn | 13 | 82.3% | 3rd | 7th | 7th |
| Ghana | US$68.4bn | 4.8% | 32.4m | R39.8bn | 27 | 45.2% | 3rd | 5th | 5th |
| Kenya | US$99.3bn | 4.4% | 54.7m | R73.1bn | 39 | 48.9% | 5th | 11th | 12th |
| Mauritius | US$11.4bn | 3.8% | 1.4m | R13.3bn | 20 | 79.1% | 3rd | 9th | 8th |
| Mozambique | US$14.4bn | 2.8% | 30.9m | R13.3bn | 20 | 78.8% | 4th | 10th | 12th |
| Seychelles | US$1.1bn | 4.7% | 0.10m | R1.0bn | 7 | 99.8% | 2nd | 6th | 5th |
| South Africa[4] | US$415.3bn | 5.0% | 60.5m | R314.5bn | 52 | 76% | 3rd | 2nd | 1st |
| Tanzania[5] | US$63.2bn | 5.3% | 62.1m | R20.9bn | 44 | 72.6% | ABT 11th<br>NBC 4th | 13th<br>15th | 15th<br>14th |
| Uganda | US$37.6bn | 3.0% | 44.7m | R16.6bn | 27 | 60.3% | 4th | 11th | 11th |
| Zambia | US$18.5bn | 2.4% | 19.1m | R14.9bn | 18 | 68.6% | 4th | 14th | 7th |

## South African peer comparison[6]

| | Absa[7] | FirstRand[7, 8, 9] | Nedbank[8] | Standard Bank[10] |
|---|---|---|---|---|
| Cost-to-income (%)[8] | 55.2 | 53.1 | 58.5 | 57.9 |
| Return on equity (%) | 15.8 | 20.1 | 12.5 | 13.5 |
| Common equity tier 1 (%) | 12.8 | 13.6 | 12.8 | 13.8 |
| Credit loss ratio (%) | 0.77 | 0.61 | 0.83 | 0.73 |

**Diving deeper:** Information regarding industry awards can be found in the Intellectual and manufactured capital section, page 62, and Human capital section, page 55, Customers page 65.

## South African market share[11]

| Bank | Total assets 2021 % | Total assets 2020 % | Total advances 2021 % | Total advances 2020 % | Total deposits 2021 % | Total deposits 2020 % |
|---|---|---|---|---|---|---|
| Absa | **20.1** | 19.5 | **22.2** | 21.3 | **20.8** | 20.2 |
| FirstRand | **21.4** | 21.7 | **19.9** | 19.8 | **21.5** | 21.5 |
| Nedbank | **16.7** | 17.2 | **17.6** | 18.1 | **17.9** | 18.7 |
| Standard Bank | **24.1** | 24.1 | **24.7** | 24.6 | **22.5** | 23.1 |
| Investec | **7.5** | 7.6 | **8.0** | 7.8 | **7.9** | 7.7 |
| Capitec | **2.6** | 2.3 | **1.9** | 2.4 | **2.7** | 2.5 |
| Other | **7.5** | 7.6 | **5.8** | 6.0 | **6.6** | 6.4 |

1 South Africa based on 2021 financial results with the balance of geographies based on 2020 financial results.
2 Source: BankFokus estimates.
3 Fitch assessment of Central Banks.
4 South Africa GDP, GDP growth and population statistics from IMF data tracker.
5 Absa Bank Tanzania and NBC combined.
6 Source: 2021 peer reports.
7 Absa and FirstRand normalised results are presented.
8 Nedbank and FirstRand include associate income in their cost-to-income ratio, whereas Absa and Standard Bank exclude it. Nedbank and FirstRand ratios presented have been recalculated to exclude associate income.
9 FirstRand results for the six months ended 31 December 2021.
10 Standard Bank is based on banking activities only.
11 Source: South African Reserve Bank BA 900 31 December 2021.

# How we create value

## Inputs as at 1 January 2021

### Financial capital
- Equity of R127.6 billion
- Common equity tier 1 ratio of 11.2%
- Capital adequacy ratio of 15.0%
- R1 058 billion gross loans and advances
- R1 048 billion deposits.

### Manufactured capital
- Effective information and technology infrastructure
- R17 billion in property and equipment
- 991 branches, 9 734 ATMs, 124 432 PoS devices.

### Human capital
- 36 737 employees with an 11.3% turnover rate
- 61.1% women
- 76.4% AIC[1] employees in South Africa
- Fair and responsible reward structure
- Diverse, experienced Executive Committee with 96 years of combined Absa experience
- R25.8 million in bursaries to 864 employees.

### Social and relationship capital
- Strategic channel partnerships, service providers and a diverse supply chain with a focus on localisation
- Broad range of stakeholders.

**Diving deeper:** Stakeholders' needs and expectations, page 25.

### Intellectual capital
- Strong brand and presence in key markets
- Financial, commercial, technical, risk and management skills and expertise at Board, management and employee level
- Innovative digital portfolio and customer value propositions.

### Natural capital
- Signatory of the Principles for Responsible Banking (PRBs)
- Voluntarily included climate change resolutions in our annual general meeting (AGM) resolutions
- Coal, Oil and Gas Financing Standards
- Commenced process of alignment to Principles of Responsible Insurance
- Climate-sensitive sectors constitute 52% of total gross loans and advances.

### Potential for cost differentiation
- Leveraging our scale in multiple geographies
- Ability to deliver cost reduction through digitisation
- Enhanced operational efficiencies using automation that further contributes to enhanced service levels
- AI in fraud analytics and safe customer serving.

### Potential for revenue differentiation
- Diverse revenue streams across our portfolio and geographies
- Large customer base in retail, business and corporate banking
- Regaining market leadership, increasing market share and cross-sell ratio, all within an appropriate risk appetite
- Scope to grow product lines where we are underweight in terms of market share
- Shifting from debt-led customer relationships to transactional, winning customer primacy
- Strengthening services to multinational corporations, global development and non-governmental organisations
- Opportunities to support a just transition to low-carbon economy
- Leveraging strategic partnerships.

[1] All African, Indian or Coloured people qualifying for South African citizenship by birth or descent, or people who were naturalised before 27 April 1994.

## Our outputs

We provide a range of banking, advisory and insurance offerings for individuals, small- and medium-sized businesses, corporates, financial institutions, banks, governments and development finance institutions. We generate revenue through fees, interest from lending and insurance activities.

- Interest
- Net fee and commission income
- Changes in investment and insurance contract liabilities
- Gains and losses from investment activities
- Gains and losses from banking and trading activities
- Net insurance premium income
- Net claims and benefits payable on insurance contracts.

### Our core business activities

A fully integrated business offering delivered through our customer-first digital solutions, ecosystems of financial services, lifestyle and value chain offerings.

**1. Providing payment services and a safe place to save and invest**
Accepting customers' deposits, issuing debt, facilitating payments and cash management, providing transactional banking, savings and investment management products and international trade services.

**2. Providing funds for purchases and growth**
Extending secured and unsecured credit, based on customers' credit standing, affordability and risk appetite. Trade and supplier finance, working capital solutions, access to international capital markets and inter-bank lending.

**3. Managing business and financial risks**
Providing solutions, including fixed rate loans, pricing and research, as well as hedging, which includes interest rate and foreign exchange.

**4. Providing financial and business support**
Providing individual and business advice, advisory on large corporate deals and investment research.

**5. Protecting against risks (insurance)**
Providing savings and investment policies and compensation for a specified loss, such as damage, illness or death, in return for premium payments.

# Outcomes as at 31 December 2021

## Total economic value distributed
**R75.8bn** (2020: R59.3bn)

= Total income + income from joint ventures and associates - impairments - non-controlling interest.

### Financial capital

- Revenue growth 6%
- Return on equity 15.8%
- Cost-to-income ratio 55.2%
- Non-interest income as percentage of total income 37.9%.
- Ordinary dividend of 785 cents
- Total shareholder return 30%
- Common equity tier 1 ratio of 12.8%
- R18.6 billion headline earnings
- Share price 15 255 cents.

As a financial services provider, we play a vital role in the economic activity of individuals, businesses and nations, helping to create, grow and protect wealth through partnerships in economic development.

### Value for Absa
**Reinvested R19.8bn**

2020: R5.2bn

**Retained to support future business growth**

- 989 branches, 8 668 ATMs. 123 153 PoS devices
- Digital service availability at 99.9%
- IT modernisation programme progressing
- Digitally active customers increased to 2.7m.

### Value for others

**Community**
**R195m** (2020: R380m)
Invested in education and skills development.

**Government**
**R9.8bn** (2020: R7.2bn)
Contribution to the fiscus through indirect taxes, dividend withholding taxes and value-added tax.

**Employees**
**R26.2bn** (2020: R25.1bn)
Paid to our employees in salaries, benefits and incentives.

**Suppliers**
**R16.5bn** (2020: R15.3bn)
Procuring goods and services from a diverse supplier base.

**Shareholders**
**R3.4bn** (2020: R6.0bn)
Paid in dividends to our shareholders.

## The direct and indirect economic, social, and environmental impacts we bring to life through being an active force for good

We have a vested interest in creating inclusive growth in Africa and delivering financial products and services in a socially and environmentally responsible manner. Opportunity and success can only be enabled through all people being treated equitably, having good health, and having access to education and income opportunities. This is where we see our most significant impacts and most noteworthy contribution to the Sustainable Development Goals[1].

[1] United Nations Sustainable Development Goals (SDGs).

### Advance inclusive finance
SDG 5 SDG 8 SDG 10

**Value for others**
- Secured USD20m from Proparco to support SMMEs
- 1m people reached through digital banking solutions in underserved areas
- USD300m in trade finance agreements in place with the CDC group for Africa trade
- R10.3bn affordable housing loan book
- R140.5m invested in supplier development, including R68.5m in funding at preferential rates and capacity-building grants
- R10.6bn spent on SMMEs, youth and women-owned entities.

### Promote environmental sustainability
SDG 7 SDG 13 SDG 15

**Value for Absa**
- 32.3% decrease in energy consumption
- 35% decrease in carbon emissions
- Supported 21 of 25 preferred bidders in REIPP programme round five.

**Value for others**
- R19bn in renewable energy lending
- 3 219 transactions screened for environmental and social impacts
- USD497m guarantee secured to support sustainable financing and other climate transition projects
- Africa's first certified green loan of USD150m in support of renewable energy projects
- R6.5bn renewable energy fund established with African Rainbow Energy and Power (AREP).

### Advance education and skills development
SDG 4 SDG 5 SDG 8 SDG 10

**Value for others**
- 3 040 youths supported through technical, vocational and digital skills training, and academic support
- 32 639 consumers participating in financial education
- R449m invested in employee training
- 20 620 ReadytoWork Programme participants.

### Promote a just society
SDG 10 SDG 16

**Value for Absa**
- Level 1 B-BBEE status
- Brand value ranking (Brand Finance Africa) sixth place
- High-performance employee retention rate of 95.4%
- 1.71% absenteeism rate
- Top Employer Africa award
- R2.1m regulatory penalties (eroded value)
- Second place at Ombudsman awards.

**Value for others**
- Treating Customer Fairly outcome score 79.5%
- Unionised employee increase of 5.8%
- 64.7% achieved in employee experience index.

## Bringing possibilities to life – our strategic intent



# Group Chairmen messages

Wendy Lucas-Bull
Group Chairman

*"The Board believes Absa is well-positioned to deliver on its strategy, given our robust financial performance along with strong capital and liquidity levels."*

As one of Africa's largest diversified financial services groups with a presence in 15 countries, we are committed to Africa and her people. We deliver a wide range of financial products and services to meet the unique needs of our clients and customers. Our purpose is to bring your possibility to life. We believe that even within the current context, possibilities can be unlocked for the individuals and businesses within the diverse geographies we serve.

## Context

As the COVID-19 pandemic persisted for a second year, global economic recovery gained momentum, although the pace was uneven as developed economies recovered faster than developing ones. After contracting 3.3% in 2020, the global economy grew by 5.9% in 2021, supported by additional fiscal stimulus in developed economies, along with the vaccination rollout, allowing economies to open up further.

Sub-Saharan Africa's economic growth was more robust than expected. Accommodative policies, a stronger global backdrop that supported higher commodity prices and multilateral support have been key drivers behind the more robust trajectory seen in many markets.

In South Africa, Absa's largest market by far, the economy grew 4.9%, although GDP remained 1.7% below pre-pandemic levels. While South Africa has matured as a democracy, persistent economic hardships place social stability at risk. Incidents of looting and rioting in certain parts of the country in July, highlighted deep-rooted vulnerabilities and emphasised the urgency of structural reforms. Absa played a positive role in those troubling days, safeguarding our employees and customers, while making every effort to ensure that our branches, call centres and ATMs remained available to our customers.

We stress that there remains much to be done to address the significant impediments to faster growth in South Africa. A suite of reform plans for South Africa's network industries of electricity, transport (ports and rail), telecommunications (spectrum) and water need to be accelerated and brought to their conclusion, so that firms can enjoy a better operating environment. Arguably, however, further reforms are needed including clarifying and securing property rights, addressing poorly functioning municipalities, educational reforms, labour market liberalisation, and changes to make the public service more effective and accountable. In these and many other critical areas, political and institutional constraints to reform are significant.

## Our business in 2021

By demonstrating resilience in a time of great uncertainty, we have reinforced our stakeholders' trust and confidence in Absa, notwithstanding significant external market shocks. The strategy, which pivoted to capital preservation in response to the pandemic in 2020, shifted once again to targeted growth in 2021 and achieved pleasing momentum.

The Group delivered strong financial and operational performance, as earnings surpassed pre-COVID-19 levels, and our return on equity more than doubled to above our cost of equity. We delivered a 30% total shareholder return, our highest since 2014, comfortably ahead of the JSE FTSE All-Share Index and a substantial improvement on 2020's COVID-19 impacted minus 16%. Lastly, our common equity tier 1 ratio improved to 12.8%, above our Board target range. Strong capital levels enabled us to resume dividend payments at half-year, and our total dividend per ordinary share is 785 cents.

This performance is testament to the leadership team. I particularly would like to thank Jason and Punki for doing a sterling job in a challenging year. They were supported by a committed Executive Committee, who remained focused on the task at hand to ensure robust delivery against our strategy. Employees across the organisation have demonstrated an exceptional ability to respond and adjust to change with speed.

## Absa strategy

Our operating environment has changed in ways that we could not have predicted, necessitating reflection on our strategic stance and priorities. Our strategic review process made it clear that a fundamentally new strategy would not be appropriate. Rather, we concluded that the context called for a re-anchoring and refresh of the strategy we launched in 2018. The executive team examined each of the strategic choices made then, considering the changing internal and external environment. Coming out of the process, we identified the following priorities:

- A diversified franchise with deliberate, market-leading growth
- The primary partner for our clients
- A digitally powered business
- A winning, talented and diverse team
- An active force for good in everything we do.

Our strategy aims to generate sustainable growth with returns in line with, or better, than the market. It accelerates growth, primacy and digitisation without materially altering the Group's risk appetite. It also further elevates sustainability as a priority.

The Board believes Absa is well-positioned to deliver on its strategy, given our robust financial performance along with strong capital and liquidity levels. While pursuing our growth strategy, we will remain mindful of the uncertain economic operating context, the lessons learned during the pandemic and the need to hold capital at the upper end of the Board target ranges. This is evident in our capital planning and dividend policy.

Please see Jason's report, page 16, for more information on our strategic themes.

We focused Board and committee attention on key aspects of being an active force for good and highlight some of these below.

## Active force for good

Through our strategic review process, we sought to clarify our intent to be active contributors to the greater good, rather than mere participants. As a result, we refined our strategic thinking towards a more purposeful intent to contribute proactively and meaningfully to the societies in which we operate, while committing to the highest standards of governance and ethics.

We actively participate in national, industry and social initiatives to safeguard our stakeholders and business. At the onset of the pandemic, Absa was one of the first banks to announce a comprehensive support plan for our clients in corporate, wealth, business bank, private bank and retail (SMMEs and individuals). The plan offered significant payment deferrals and was the most extensive relief support package extended by a South African bank.

We will continue to monitor and support the efforts of governments and regulators regarding the COVID-19 safety protocols and proactively adjust our responses to address emerging risks, including re-evaluating our business continuity plans as required.

Since becoming a founding signatory of the UN Environment Programme Finance Initiative's PRBs[1] in September 2019, we have taken the following steps:

- Absa was the first JSE-listed South African company to voluntarily include a climate change resolution in our AGM resolutions in June 2020. Over 99% of shareholders voted in support, and we provided an assessment of our exposure to climate change risk in our lending and financing portfolios, as well as the opportunities to finance climate change mitigation and adaptation in our first TCFD[2] report in March 2021.
- After consultation with stakeholders, we published our revised Sustainability Policy and a Coal Financing Standard in September 2021. We also completed our Oil and Gas Standard during the year, and we are finalising a Mining Standard. Our Group Sustainability Risk Policy requires our strategy to align with the UN SDGs[3] and the Paris Climate Agreement, among others.
- Together with trusted partners, we assessed the climate-change-related physical and transition risks in our total loan book, along with an in-depth analysis of the physical risks in our agriculture and real estate books in 2021.
- In August 2021, we published a Group-wide environmental and social risk management system standard for implementation, in accordance with the Group's Multilateral Investment Guarantee Agency (MIGA) agreement. The framework, manual and tools ensure compliance with International Finance Corporation (IFC) performance standards and local legislation. Environmental and social management system officers were appointed and trained.
- Working through the Banking Association of South Africa (BASA), we are engaging with government regarding plans for an orderly energy transition to enable South Africa to comply with its international greenhouse gas emission reduction commitments.

The Board expects the executive team to ensure that our business dealings align with our commitments while proactively assisting clients in advancing their own transition in an effective and efficient manner. We saw strong stakeholder response to certain ESG-sensitive deals, and measures have been implemented to avoid these.

Our intention to re-ignite implementation of a new B-BBEE transaction demonstrates Absa's significant commitment to transformation. Meaningful black participation, including ownership at all levels of the South African economy, is a national priority to ensure socio-political, financial and economic stability. We look forward to undertaking a suitable B-BBEE scheme that is broad-based, involving third-party investors and employees, and could constitute up to 8% of Absa's share capital, including the 1.9% Absa Empowerment Trust shares established in 2017 on separation from Barclays PLC. Refer to page 45.

## Board matters

The alignment between management and the Board is vital in forging a holistic approach to advancing transformation, diversity and inclusion across the Group.

We were delighted to welcome Sello Moloko to the Board as an independent non-executive director and Chairman designate on 1 December 2021. Sello's career in financial services spans almost 30 years. He brings extensive experience as a leader in the financial services industry, with a proven track record as an executive, entrepreneur and board member at companies across several sectors. Sello will take over as Group Chairman from 1 April 2022.

We were also pleased to welcome John Cummins to the Board in November 2021 as an independent non-executive director. John brings a wealth of banking, risk, and treasury experience.

I wish to acknowledge and thank Mark Merson, who stepped down from the Board on 31 January 2022. Mark initially served on the Absa Group Board as a Barclays PLC nominee and later as an independent non-executive. He has contributed tremendously to the Board, chairing the Board Finance Committee and later, the Group Risk and Capital Management Committee and the Group Credit Risk Committee. Mark's insights into banking, risk and financial matters have been invaluable. He has played a vital role in every aspect of our Board, providing insight into significant transactions and commercial decisions taken over the last eight years. Mark has exhibited the highest levels of skill and diligence and given generously of his time. We wish him all the best in his future endeavours and thank him for remaining on as chairman of our Absa Securities UK board.

1 Principles for Responsible Banking.
2 Task Force on Climate-related Financial Disclosures.
3 Sustainable Development Goals.

Sipho Pityana was removed from the Board on 23 November 2021, in line with section 71 of the South African Companies Act.

The decision by Absa and former Group Chief Executive, Daniel Mminele, to part ways in April 2021 was regrettable, resulting in a mutually agreed separation that was in the best interest of both parties.

## Executive appointments

On behalf of the Board, I am delighted to announce the appointment of Arrie as our Group Chief Executive Officer. I am confident that his leadership will provide the continuity and stability necessary to consolidate our purpose and strategy. I know that the Group is in good hands under Arrie's executive leadership. I would like to thank Jason and Punki for their significant contributions as Interim Group Chief Executive Officer and Interim Financial Director, respectively, during which time the Group's positive operational momentum was maintained. Jason will resume his position as Group Financial Director and Punki will act as Interim Chief Executive: RBB and will remain on the Group Executive Committee.

## Conclusion

My time at Absa has been highly fulfilling. It is with both pride and sadness that I step down on 31 March 2022, having completed my SARB-maximum nine-year tenure. It was an honour to witness the beginning of Absa's journey on the African continent when we acquired the subsidiary banks from Barclays in 2013. This signalled our ambition, even then, to be a force in Pan-African financial services. I believe we are well on our way to achieving that ambition.

Negotiating a successful financial separation agreement from Barclays was memorable, as we worked tirelessly to secure the best arrangement for Absa. The project of separating from Barclays was a unique one that was unprecedented in its size and complexity in recent years.

Programmes of this nature and size rarely have favourable outcomes. However, thanks to the support of Barclays, the South African Reserve Bank (SARB), local boards, employees and regulators in all our presence countries, we completed the programme successfully, on time and under budget.

The Separation established Absa as a standalone financial services provider on the continent, successfully rebranding all our ARO subsidiaries. We have brought our customers with us as we improved our services by revamping our technology platforms and channels. Furthermore, we expanded our footprint beyond the continent, opening representative offices in the US and the UK. This move will enable us to continue building connectivity for global clients wanting to do business in strategic corridors in Africa.

I am proud of the work we have done over the past nine years and the Group's resilience over this time. My thanks go to the Absa Group, Absa Bank and Absa Financial Services Boards, and all our ARO board members. I am honoured to have served with some of the best minds in the business – both on the boards and in the executive team. Finally, I extend my utmost appreciation to our employees across the Group for their commitment and to our loyal clients across the continent.

I am pleased to be handing over the reins to Sello with the Group in good shape, and I look forward to watching Absa go from strength to strength under his leadership.

***"I thank the Board for the warm welcome, and I look forward to being part of Absa's successful journey in the future."***

Sello Moloko
Group Chairman
Effective 1 April 2022

As the world has adapted to the COVID-19 pandemic and the global and regional economies recovered – albeit unevenly – business performance in the banking industry has improved after a sharp drop in 2020.

Banks played a critical role in mitigating the impact of the pandemic through customer relief measures, and, as lockdown restrictions were gradually lifted, economic activity improved. Industry profitability also recovered in 2021, and Absa demonstrated resilience in the face of unexpected events. Management remained focused on executing the strategy and has delivered solid results. This is commendable, and it is a demonstration of a strong and committed leadership team that has the support of our employees.

The rapidly evolving competitive environment demands that we are responsive in order to remain relevant. This year, we have re-anchored our strategy to deliver growth. We aspire to be a leading African bank, bringing possibilities to life, a diversified franchise, and the primary partner to our clients. We will achieve this by becoming a digitally powered organisation, underpinned by a winning, talented and diverse team, and being an active force for good in everything we do.

Arrie's appointment as Group Chief Executive Officer will anchor our performance and growth, as we consolidate our position as a leading financial services provider on the continent. Arrie is aligned with the Board on our organisational imperatives, including talent management and transformation. The Board looks forward to working with Arrie and the executive to ensure a Pan-African financial services Group that creates sustainable value for all its stakeholders. Furthermore, I look forward to continuing to work with Jason and Punki and thank them and the ExCo for such strong delivery over the last year, which has placed the Group on a solid footing for the future.

I believe Absa has proven itself to be adaptable and has what it takes to achieve our strategic objectives. I thank the Board for the warm welcome, and I look forward to being part of Absa's successful journey in the future.

# Interim Group Chief Executive Officer's message

Jason Quinn
Interim Group Chief Executive Officer until 28 March 2022.

Group Financial Director effective 29 March 2022

*"This is a very strong set of results, which reflect not only the improved operating environment in 2021, but also the deliberate actions that we have taken to ensure that Absa remains resilient and poised for growth."*

**2021 Financial Results booklet**

**R18.6bn**
**Headline earnings increased**
(2020: R8bn)

**15.8%**
**Return on equity increased**
(2020: 7.2%)

**(59%)**
**Credit impairments decreased to R8.5 billion**
(2020: R20.6bn)

**55.2%**
**Cost-to-income decreased**
(2020: 56.0%)

**13%**
**Net asset value per share increased**
(2020: 6%)

**12.8%**
**Common equity tier 1 ratio increased**
(2020: 11.2%)

## Context

It has now been two years since the emergence of the COVID-19 pandemic, which resulted in countries worldwide imposing national lockdowns, shutting down economies and upending life- and business-as-usual. The measures taken to contain the spread of the virus across the globe resulted in economic hardship, higher unemployment, increased inequality, and lower business and consumer confidence, as governments confronted the daunting challenge of lives over livelihoods.

The wider availability of vaccines globally has offered hope in our collective efforts to overcome the pandemic even though access to vaccines in some of our presence markets remained a challenge, along with hesitancy towards vaccination. While risks from the COVID-19 pandemic appear to be easing in South Africa after a mild Omicron-driven fourth wave, it continues to rage on globally; thus, the threat remains relevant if a more virulent variant emerges.

Developed economies led the global economic rebound in 2021 after a recession in 2020, while the pace of growth in emerging markets was slower.

Although 2022 started on a strong note, the outlook remains uncertain partly due to the Russia/Ukraine conflict, ongoing supply chain constraints and the risk of another disruptive COVID-19 wave. While the full impact of the war in Eastern Europe is unclear, tightening sanctions on Russia have sent commodity prices soaring, which has potential implications for inflation, interest rates and economic growth and continued electricity supply shortages in South Africa pose ongoing risks .

Although the pandemic took a substantial socioeconomic toll in every country, there were pleasing signs of recovery across many of our presence markets in Africa despite the challenge of constrained government budgets and higher levels of indebtedness.

In South Africa, the economy recovered materially. However, the unrest and looting in parts of KwaZulu-Natal and Gauteng in July were profoundly concerning, hitting economic activity and damaging fragile consumer and business confidence. Electricity shortages persisted in 2021, and power outages were considerably worse than the previous highs of 2020, particularly in the second half of the year.

Despite the above difficulties, human resilience was a strong feature as governments across countries extended unprecedented support. The banking industry also followed suit, putting in place relief measures to cushion customers against the worst impact of the pandemic.

At Absa, our posture during this time was one of compassion and empathy. We put in place the most comprehensive package in the industry for the benefit of our clients, which also included support during the riots in South Africa.

The challenges of the past two years have changed how business is conducted across the globe. Our business operations have had to remain fluid and adaptable to meet customer expectations while supporting employee wellbeing and productivity.

I commend our colleagues at the front line of our customer interactions and express my gratitude for their unwavering dedication to meeting customers' needs during difficult times. I am proud of how our employees have demonstrated resilience in bringing our purpose to life for our clients and the communities we serve.

## Business performance

We have navigated the complex and uncertain operating environment particularly well to produce record results during 2021. Our diluted headline earnings per share (DHEPS) rebounded strongly, up 132% from a low base impacted by COVID-19 and the significant economic downturn.

I was particularly proud that our DHEPS has increased 14% from pre-COVID-19 levels, and our return on equity of 15.8% was in line with 2019 and exceeded our 14.5% cost of equity. Divisional headline earnings recovered strongly from 2020 lows, with RBB more than doubling and CIB up 54% – both delivering returns well above the cost of equity.

During 2020, we focused on preserving capital and liquidity and protecting our balance sheet and client franchise rather than on growth. While shifting more to growth in 2021, the balance sheet trends remained remarkably resilient. Our capital and liquidity levels strengthened further, which, when combined with strong loan coverage, positions our balance sheet well, demonstrating resilience and providing a solid base to fund our growth ambitions.

Our strong balance sheet position allowed Absa to resume dividend payments during 2021, initially at a pay-out ratio of 30% and increasing to 40% for our final dividend. Pleasingly, our total shareholder return improved to 30%, which was competitive relative to our peers, reflecting our improved business performance.

## Strategic deliverables

During the year, we undertook a rigorous process to examine each of the strategic choices made in 2018 and to confirm their relevance in a post-COVID world. Our strategy has served us well and helped bring possibilities to life for our stakeholders – we have outperformed our peers financially and operationally in many areas, our balance sheet has remained strong, and we have continued to digitally re-engineer our businesses. We also completed the separation from Barclays within schedule and ahead of budget, which was a critical factor at the time of setting the 2018 strategy and informed many of the strategic choices we made.

Through this reflective process, it became clear that a fundamental shift in strategic direction was not required but, rather, a refresh of the tenets within our 2018 strategy. This approach enables us to build on our success and momentum, learning from the last three years while adapting our strategy to the changing internal and external environment.

To this end, we have re-anchored and refreshed our 2018 strategy, with the aspiration to be a leading African bank, bringing possibilities to life. We have therefore developed five strategic themes, each with a clear roadmap and priorities for the next three years. Our progress during 2021 on each of these themes is outlined below.

### A diversified franchise with deliberate, market-leading growth

The Group has reported robust and market-competitive growth across revenue, pre-provision profits and earnings over the past two years, underpinned by a diversified franchise. We are reasonably well-diversified by activity and geography.

While RBB constitutes 57% of earnings, it comprises several large businesses, including Home Loans, Vehicle and Asset Finance, Relationship Banking, RBB ARO and Everyday Banking (composed of a retail transactional franchise, Cards and Personal Loans). In a typical year, Insurance is also a significant contributor to RBB. Notwithstanding the material claims and reserves raised, we have produced strong underlying results in this business during the year.

CIB is diversified by geography and well-balanced across its principal businesses, with CIB ARO a significant contributor. In total, ARO accounts for 24% of Group revenue and 16% of earnings. We see scope to further increase the contribution from ARO over time, given the growth opportunities in our existing portfolio and the potential for growth in returns in our ARO RBB business.

We allocate capital and resources deliberately to areas with sustainable and attractive risk-adjusted returns. This was evident in targeted loan growth in secured retail lending in SA and our significant participation in renewable energy deals, the strong deposit growth across the board, and our focus on customer primacy and non-interest income. Our share of SA retail deposits improved to 22%. Continuing to grow core deposits remains a priority and is a good indicator of the health of our franchise.

During the year, we concluded an agreement with Sanlam to combine our investment management businesses in a transaction that resulted in the formation of the leading black owned asset management company with assets under management, administration and advice in excess of R1 trillion. As a result, we can now offer a deeper, broader range of investment solutions for our clients – essential to achieving growth in the investment management sector.

### The primary partner for our clients

We are committed to delivering innovative propositions for our client segments that fully satisfy their day-to-day requirements, based on a deep understanding of their needs. In SA, retail customers increased marginally to 9.6 million, primarily in the middle market and retail-affluent segments, which grew 3% and 2%, respectively. ARO RBB's active customer numbers also increased by 4% to 1.6 million.

SA primary customers decreased slightly to 2.8 million, as COVID-19-related lockdown restrictions continued to impact consumer income levels and transactional activity, particularly in the entry-level segment. Leveraging the RBB ecosystem to deepen customer relationships continued to show traction as the products per customer improved marginally to 2.4 times. In CIB, primacy improved slightly, with a far higher proportion of new clients.

Supporting customers when they need us most is an essential element of this strategic theme. Following the riots in July 2021, we re-introduced our Siyasizana programme to provide a bespoke payment relief solution to assist affected retail clients in RBB SA who hold existing credit facilities. We also offered an additional two-month premium payment relief on insurance and fast-tracked claims assessment, processing and fulfilment, as per the mandate from the South African Special Risk Insurance Association (SASRIA) for losses arising from the unrest. Throughout the COVID-19 pandemic, we have proactively identified customers who qualify for premium relief and claims.

## A digitally powered business

The pandemic accelerated digital adoption with rapid expansion in digital self-service capabilities, e-commerce, online education and remote work. Accordingly, in 2021, we sought to grow our digital adoption rate, with SA digitally registered and active customers increasing 18% and 11%, respectively, and volumes of digital transactions rising 20% – bolstered by strategic pricing reforms.

While this progress is pleasing, we recognise that more needs to be done when compared with a 54% digital enrolment average in South Africa. However, we are encouraged by the digital enrolment of our flow clients, improving significantly from 15% in 2020 to approximately 60% in 2021.

We launched Absa Advantage, with over 100 000 clients joining in the first week alone. The feature allows clients to bank smarter – providing educational scenarios on managing their money better while receiving instant rewards on completion of the challenges.

Furthermore, we enhanced the functionality of our Pan-African single sign-on platform, Absa Access, enabling clients to initiate trade-related transactions, apply for foreign exchange (FX), and make international payments on the platform.

In line with our aim of enhancing customer experience through innovative digital solutions, we launched Absa Abby on our banking app. This AI-powered virtual assistant helps customers navigate the banking app with ease.

Through our Retail Banking Digistore, we are invested in helping our SME customers grow and sustain their businesses by granting access to a business recognised ecosystem that will significantly boost their economic growth.

Our use of digital solutions to enhance customer experience has been recognised through several awards, including the Outstanding Financial Innovator Award in the Banking Category in Africa and the Outstanding Innovation Award for Absa Access in the Cash Management Category at the Global Finance Digital Innovator Awards. We were also included in the International Digital Customer Experience Awards 2021, where Absa Abby clinched the Outstanding Chatbot Customer Experience Award.

Despite the efficiency gains and experience enhancements, we recognise that there are downsides to digital evolution, including a rise in cybercrime and opportunistic financial crime combined with the increasing sophistication of criminal activity. Maintaining and protecting data is therefore critical. We are mindful of these risks and invest significantly in our control environment, specifically in technology and employee training and development, to protect our customers' and the organisation's interests.

## A winning, talented and diverse team

We remain committed to continually bolstering our leadership team and building a diverse talent pool for our succession pipeline. Consequently, we were pleased to welcome Deon Raju as Group Chief Risk Officer and Saviour Chibiya as Group Executive: ARO.

We seek to primarily build our talent from within while enhancing our value proposition to attract and retain the best external talent now and in the future. Of the 7 081 vacancies filled in 2021, 70.4% were internal hires. Although this is down from 74.6% in 2020, we enhanced our efforts to develop young talent to provide the next generation of leaders.

We recognise that diversity and inclusion matter more than ever to enable our strategic vision. Therefore, we remain committed to fostering an inclusive and transformed workplace to serve our diverse customer base.

The COVID-19 pandemic changed the world of work, and we have adapted accordingly, implementing a hybrid working model as the new normal. As a result, an estimated 70% of our colleagues will continue to work in a hybrid manner, excluding our branch network. We seek to support leaders and their teams to enhance productivity, engagement, and inclusivity within this evolving context.

I am proud that the Top Employers Institute, a global authority on recognising excellence in people practices, acknowledged our human capital efforts, awarding Absa Top Employer in Africa certification for 2021. This marks an important milestone in our journey to re-invigorate our people practices across the Group.

## An active force for good in everything we do

During our strategic re-anchoring process, along with digital, the criticality of ESG was elevated. We actively contribute to creating inclusive, sustainable economic growth in Africa and are committed to delivering on our purpose of bringing possibilities to life.

We are making solid progress on ESG. In line with this, all seven of our global ratings improved last year, some materially. We are particularly pleased with continued improvement to the 86th percentile among banks globally in our S&P SAM ESG rating. Our CDP climate change rating also jumped two notches – the only SA bank to improve last year.

Climate change is the central theme of the environmental agenda. We aim to become Africa's sustainable finance leader while managing climate change risk. To further this objective, we will soon publish an ambitious net-zero carbon target. In our view, sustainable finance offers a significant growth opportunity, larger than the risks from climate change, at least in the near term.

We were the first SA bank to announce sustainable finance targets. CIB aims to finance R100 billion in ESG-related loans and debt by 2025. In addition, Relationship Banking plans to finance R2.5 billion or 250MW in embedded power in South Africa by 2025. Last year, CIB provided R19 billion in ESG-related financing, almost double its target for the year. Moreover, Relationship Banking's renewable-energy finance grew 80% to around R460 million.

Given South Africa's carbon-intensive economy, financing renewable energy represents a significant opportunity. We demonstrated our involvement and commitment in this area during the year, dominating the fifth procurement round of renewables under the government's REIPPP programme, where our clients won over 80% of the deals.

Cumulatively, we have been involved in deals totalling 5GW. We also partnered with African Rainbow Energy and Power to create South Africa's largest black-owned renewables fund, with over R6 billion in renewable assets at launch.

Additionally, we are focusing more on inclusive financing, including the mass market and SMMEs, as well as affordable housing mortgages. There is ample opportunity in funding where development finance institutions and other funders expect banks to have strong ESG credentials and appropriate ESG systems and controls. For instance, the IFC provided Absa with an attractively priced USD150 million green loan during 2021, representing Africa's first certified green loan.

We obtained a R320 million facility from Proparco in December 2021, enabling the Group to provide financial support to corporate SMMEs – a vital component of the local economy – as they seek to recover from the adverse effects of COVID-19 on their businesses.

To further demonstrate our commitment to stimulating growth across the continent, we obtained an additional USD50 million risk-sharing facility from the CDC Group, the UK's Development Finance Institution, expanding our capacity to offer financing solutions to micro and small businesses and households across sub-Saharan Africa through microfinance and non-bank financial institutions.

Promoting diversity and inclusion is also a key element of our social agenda. To this end, we invested R195 million in 2021 to support communities through our various initiatives aimed at enabling inclusive, sustainable economic growth in Africa. These included education and youth employability initiatives, advocacy and thought leadership, along with our COVID-19 and civil unrest responses.

The fight against gender-based violence and femicide (GBVF) has also been a focus area. We were instrumental in establishing the GBVF Private Sector Response Fund as testament to our zero-tolerance approach to this scourge. We are committed to advancing gender equality in policy and practice, and, as such, gender parity and diversity are essential deliverables for all of our leaders.

## Conclusion

I am encouraged by the significant strides made in 2021 in bringing possibilities to life for all our stakeholders – working as one Absa team united across Africa. This progress heralds our ability to remain focused on our strategic intent, achieving what we set out to do despite the uncertainty faced within this unprecedented time in history.

Our achievements in 2021 would not have been possible without the significant effort and steadfast determination of all our colleagues, for which I am incredibly grateful. I am privileged to have led the Group, and I resume my role as Group Financial Director as we seek to achieve the purpose of bringing people's possibilities to life. I also wish to extend my thanks to my colleagues on the ExCo and the Board for their support during the year.

Congratulations and thanks are due to Wendy for her nine years on the Board, during which time she presided over some of the most critical events in our organisation's history, including the separation from Barclays. I wish her well in her future endeavours. I would also like to welcome Sello – we look forward to his leadership, insight and guidance on the Board.

**Diving deeper:** Our guidance for 2022 is provided in our Outlook discussion, page 79.

***"I would also like to welcome Sello – we look forward to his leadership, insight and guidance on the Board."***

# Our external environment

**Responding to trends is essential to remain relevant, and is necessary to win in the medium term.**

## Economic momentum

### Unpacking the context

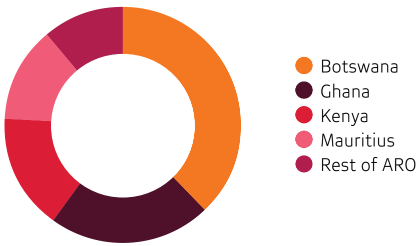
Sub-Saharan Africa's economic recovery is underway, albeit uneven. Further waves of COVID-19 infections have, however, hampered progress by forcing certain markets to re-introduce virus containment measures. The World Health Organization initially set a goal for all countries to vaccinate 10% of their populations by September 2021, though 56 did not achieve this milestone – many in Africa[1]. Regrettably, vaccination rates in our presence countries, including South Africa, remain well below what is required to reopen the economy fully. However, strong agricultural growth and a faster-than-expected commodity price recovery have helped many sub-Saharan economies weather the storm. Moreover, the more diversified East African countries have generally been less impacted, with more modest restrictions on economic activity in this region. On the other hand, those economies with less diversification have been hardest hit, particularly those where tourism is a focus.

Protectionist measures across the globe, coupled with a focus on enabling local supply chains as a de-risking measure in the face of COVID-19-related challenges, hindered sub-Saharan growth, particularly for export-dependent countries. At the same time, the possibilities of the African Continental Free Trade Agreement offers some hope for recovery.

After an unprecedented number of downgrades in 2020 in response to the rise in government debt and liquidity challenges, the likelihood of further credit rating downgrades continues to weigh heavily on some of our presence countries.

- **Botswana** – Market growth offset by weaker foreign exchange reserves position.
- **Ghana** – Strong contractual frameworks but relatively low pension assets per capita. Credit rating downgrades in early 2022 have placed additional strain on the macroeconomic environment.
- **Kenya** – Progress in sustainable finance supports market development.
- **Mauritius** – Robust legal and market environment dampened by low liquidity.

**ARO revenue composition**




The riots in **South Africa's** two biggest economic hubs, Gauteng and KwaZulu-Natal, have weighed on the economy. While unrest has abated, the underlying social, economic and political challenges remain. The revealed weakness of the state suggests that investors will be even more cautious going forward. Although economic activity in the first half of 2021 was stronger than expected, growth momentum had been softening even before the negative effect of the third wave of the pandemic and the outburst of violent unrest. Indeed, the second half of the year saw a more significant contraction than anticipated. The SARB Monetary Policy Committee commenced its tightening cycle earlier than expected, but stressed that the pace of normalisation would be gradual. We view the committee's move as a pre-emptive measure to bolster its credibility and firmly anchor inflation in the face of the higher upside inflation risks rather than because of any manifest core consumer price index (CPI) pressure. The move to a 100MW licensing threshold for embedded electricity generation is a highly substantial growth-boosting reform, but it will likely take some time to bear fruit.

| | | | 2021 | | |
|---|---|---|---|---|---|
| **Baseline** | **Botswana** | **Ghana** | **Kenya** | **Mauritius** | **South Africa** |
| Real GDP (%) | 8.3 | 3.7 | 4.4 | 4.0 | 5.2 |
| CPI (%) | 6.5 | 9.4 | 6.0 | 3.9 | 4.4 |
| Average repo rate (%) | 3.8 | 13.8 | 7.0 | 1.9 | 3.6 |

Source: Absa Economic Research Q4 2021 Quarterly Perspectives.

### Impact on our business model

There is an increased risk of credit defaults within the current context, heightening business risk. In addition, the constrained fiscal positions of our various presence countries could result in downward pressure on our customers, requiring our model to adjust accordingly, including providing additional support, where possible, and seeking ways to reduce the cost of our services while remaining profitable.

## Competition and technological change

### Unpacking the context

#### Changing business models and increased competition

COVID-19 has catalysed the evolution of banking, accelerating the need to embrace leading-edge technology to transform how we interact with our customers and conduct business daily. Likewise, the increased availability of data, use of analytics and artificial intelligence (AI), continued adoption of cloud computing, and the emergence of new technologies, such as the distributed ledger, will rapidly transform banks' operations.

[1] COVID-19: Vaccine Distribution, Rates and Mandates, World Economic Forum. https://intelligence.weforum.org

Our competitive landscape is rapidly expanding with an increasing number of digital-only providers and other non-banking competitors. In fact, equity funding for start-ups in Africa alone reached USD5.2 billion in 2021, representing a 264% increase. Notably, almost half of this funding was earmarked for the fintech sector, with Nigeria receiving the largest proportion and South Africa in second place. As investments in start-ups increase, we recognise that this represents a pool of growing competition but also an expanding network of possibilities to develop partnerships to meet our customers' evolving needs[1].

The shift to digital must also be understood within an environment where Africa is home to the most rapidly increasing mobile phone penetration rate globally. In 2020, mobile technologies and services generated more than USD130 billion in economic value added (8% of GDP) in sub-Saharan Africa. This will reach USD155 billion by 2025 as countries increasingly benefit from the improvements in productivity and efficiency brought about by the increased take-up of mobile services. Mobile money, in particular, is driving productivity; in 2020, the value of transactions on mobile money platforms in the region reached USD490 billion[2].

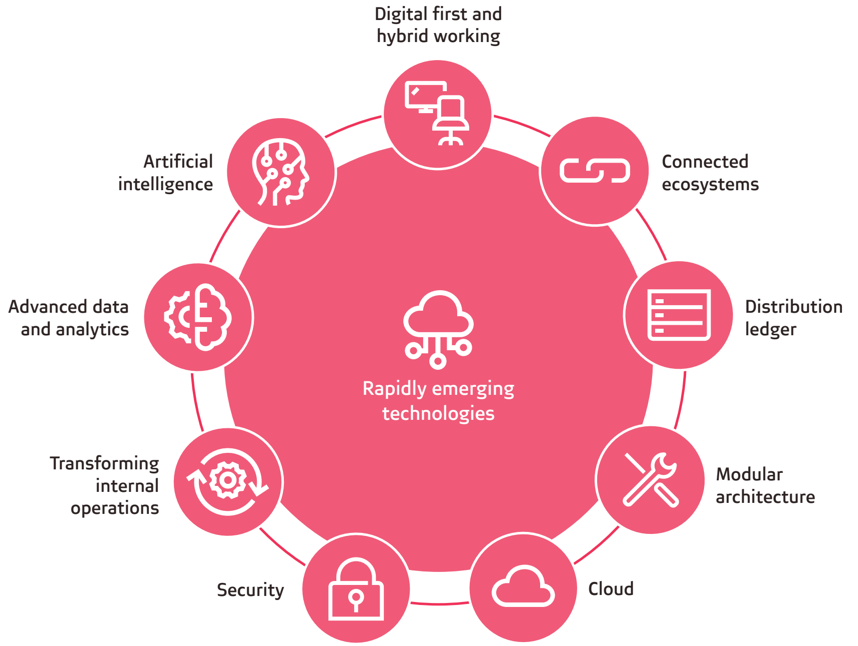
### Heightened risk

Although digitisation is essential to remain competitive, the risk of cyberattack increases due to the attractiveness of the volumes of sensitive data processed and stored, as well as the crucial role banks play in the functioning of payment and settlement systems.

The rise in fintechs represents an opportunity to develop partnerships that grant access to capabilities to meet our customer needs while simultaneously bringing increased competition to the industry.

[1] Sources include Partech, Techcrunch and Disrupt Africa.
[2] The African Digital Banking Transformation Report 2020. https://www.gsma.com/mobileeconomy

Of the many emerging technologies, Absa is paying particular attention to the following:




## Impact on our business model

A rapidly evolving competitive landscape, changing consumer demand, financial disintermediation and disruptive technologies have expedited the evolution of our business model to one that genuinely embraces digital technology for delivering better products to customers, improving risk management and optimising profitability. As a digitally powered bank, we choose to engage with/on platforms and ecosystems our customers prefer, continuously diversifying and strengthening our modes of service delivery.

Protection against data leakage and other security breaches is essential due to the vital role banks play in functioning payment and settlement systems, thus demanding additional resources be funnelled to this priority area. Moreover, banks globally have noted the heightening risk of insider threat as employees are targeted to secure valuable information. Therefore, we continually work with our people to enhance their understanding of the risks involved and strengthen the systems that enable the Group to track anomalies and proactively investigate potential threats.

# Socio-political environment

## Unpacking the context

### Sub-Saharan Africa is rated as the lowest-performing region globally by Transparency International

African countries have made progress concerning their macroeconomic policies, ensuring peaceful transitions of political power and supporting civic engagement. However, many continue to wrestle with rampant corruption, increasingly weak institutions, and mismanagement of public funds, threatening their recovery from COVID-19. Transparency International's 2021 Corruption Perceptions Index rated sub-Saharan Africa as the worst-performing region globally, and sadly, various economies in Africa have reported the mismanagement of pandemic relief funds.

**49 countries** assessed with a score of **33%** for the region

### Corruption and rising inequality threaten social and economic stability in South Africa

The South African government seeks to build a capable, ethical and developmental state. However, the dysfunction of many public institutions at all levels of government has impeded development and continues to undermine business confidence, further hindering economic recovery. Within this context, South Africa's unsustainably high unemployment levels rose due to pandemic impacts on the economy. Sadly, the Gini index in South Africa and sub-Saharan Africa has increased to 0.63 and 0.45[3], respectively, where a score of zero means perfect equality, and one is absolute inequality. These conditions threaten social and economic stability, as evidenced by the July 2021 civil unrest experienced in parts of South Africa.

[3] Latest available as per World Bank; sub-Saharan index is a simple average of Absa presence countries in sub-Saharan Africa. Includes: Botswana, Ghana, Kenya, Mozambique, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, Tanzania, Uganda, Zambia.

## Impact on our business model

The pandemic has hit Africa hard, drastically shrinking the middle class while pushing many workers in the moderate working poor and near-poor categories deeper into poverty and reversing some of the progress made in addressing inequality and poverty reduction in recent decades.[1]

Unemployment, weakening wage growth, and heightened poverty impact the markets we serve and heighten instability and social unrest.

We recognise that a socioeconomic context characterised by social instability and inequality is not conducive for sustainable business. We therefore continue to interact with government in South Africa and our ARO regions directly and through various associations, seeking to advocate for enabling policy environments that promote national and regional objectives and beneficial socioeconomic outcomes.

Through our products and services, we seek to support financial wellbeing and extend financial inclusion to lower-income groups. In this way, we contribute to a more inclusive economy and societal financial wellness, developing affordable, needs-based financial products delivered through innovative and convenient channels, supported by consumer education and financial literacy training.

# The role of business in society

## Unpacking the context

### Global commitments to sustainable development

In today's uncertain socioeconomic climate, one constant is the need globally to ensure that sustainable economic growth benefits people and the planet. Now more than ever, governments, businesses and organisations are called upon to provide leadership that actively demonstrates a commitment to cultivating a healthy, thriving society.

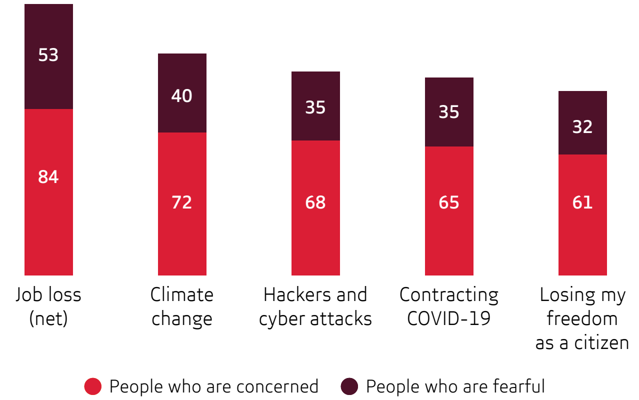
### Governments taking action

Certain African countries have introduced incentives and regulatory guidelines to support the development of sustainable finance products. In addition, in specific jurisdictions, listed companies are encouraged to integrate environmental, social, and governance information in their reporting.

- **South Africa** established a climate risk forum as part of its national Treasury focus areas
- **Botswana** has guidelines for listed companies on reporting ESG information to investors
- The **Ghanaian** National Pensions Regulatory Authority released guidelines for incorporating ESG factors in investment decisions
- **Ghana** is working with the Global Reporting Initiative to introduce sustainability reporting in its market
- Nine African countries have policies that incentivise the issuance of sustainable financial products, including **Kenya**
- To encourage activity in the green bond market, **Kenya** implemented tax exemptions for interest earned and also issued ethical securities to fund socially responsible investment opportunities
- In June 2021, the Bank of **Mauritius** released guidelines for issuing sustainable bonds.

### Business expected to lead

Increasingly, businesses are being challenged on their role in society, with the concept of stakeholder activism having superseded shareholder capitalism, where companies are expected to serve society as a whole and not merely their shareholders. For example, in the 2021 Edelman Trust Barometer, 66% of those surveyed expect CEOs rather than governments to lead positive societal change. Interestingly, in another 2021 Edelman survey (conducted ahead of the 2021 UN Climate Change Conference), 14 000 respondents in 14 markets were surveyed (including South Africa), and out of the top concerns of respondents, climate change ranked second only to job loss.




Adapted from the 2021 Edelman Trust Barometer report

## Impact on our business model

Purpose is the cornerstone of our long-term sustainable growth, enabling Absa to balance profit with responsibility. Being purpose-led includes strengthening our role and impact through our core business lines, including banking solutions that deliver social and environmental benefits to contribute to achieving the SDGs. In this regard, our strategic theme of being 'an active force for good' influences our business model and, therefore, our day-to-day activities, bringing together multiple capabilities and implementation programmes to support our objective of delivering shared value. These initiatives are focused on addressing growing global concerns regarding climate change and sustainable development in the financial sector. This includes an assessment of perceived high-risk book exposures within the existing lending portfolio and related business practices across all countries in which Absa has a footprint to inform our chosen business model and strategic choices going forward.

[1] International Labour Organization's World Employment and Social Trends Report 2022.

# Changing world of work

## Unpacking the context

### Agility and adaptability required to meet needs

The COVID-19 pandemic has impacted how business is conducted across the globe. With these changes still in flux, business operations have had to remain fluid and adaptable to meet customer expectations while supporting employee wellbeing and productivity. The emerging norms of hybrid and remote-only working models evidence the dynamic nature of the pandemic-impacted workplace.

### Battleground for talent

Within this already challenging context, the war on talent in the banking industry is evolving. While intelligent automation reduces headcount, it has intensified the demand for technology skills, and intense competition from technology companies has placed pressure on banks concerning recruiting and retaining critical and scarce talent.

### Shifting expectations

Generational differences in work expectations and shifting demographics within an uncertain and taxing context can result in higher turnover. Globally, employees have expressed a desire to quit or have quit their jobs at a record pace, disrupting businesses everywhere – with the trend now labelled the Great Attrition.

Microsoft's Work Trend Index 2021[1] found that **66% of employers** worldwide are **redesigning** their **workplaces** to accommodate hybrid work arrangements.

According to another survey[2], **58%** of respondents wanted to **work remotely full-time** post-pandemic, while **39%** wanted a **hybrid work** environment. That is an astounding **97%** of workers who **desire some form of remote work**.

[1] https://www.microsoft.com/en-us/worklab/work-trend-index/hybrid-work
[2] https://www.flexjobs.com/blog/post/workers-quit-employers-revoke-remote-work/

## Impact on our business model

The demand for scarce and critical skills within the context of our digital transformation could affect Absa's ability to achieve our desired business model. Helping to reskill the existing workforce not only drives retention but meets fundamental business needs. In the past three years, Absa has made significant investments in developing technology skills and capabilities internally.

Following extensive engagements, it became clear that our employees' organisational practices and the expectations of our employees have fundamentally shifted in the wake of COVID-19. We have therefore adopted hybrid working as the new normal, and this model will remain part of our blueprint into the future. To prepare our organisation for this longer-term transition, we continue to upskill both employees and leaders with the necessary knowledge and tools to enhance productivity, engagement, and inclusiveness in a virtual world.

**Diving deeper:** Our future-fit evolution, page 54, Building digital skills, page 61.

# Legal and regulatory

## Unpacking the context

### Heightened regulatory demands

Worldwide, continued increases in regulation in the face of new frontiers of risk have heightened demands on banks to ensure compliance, resulting in, among others, the increased cost of banking.

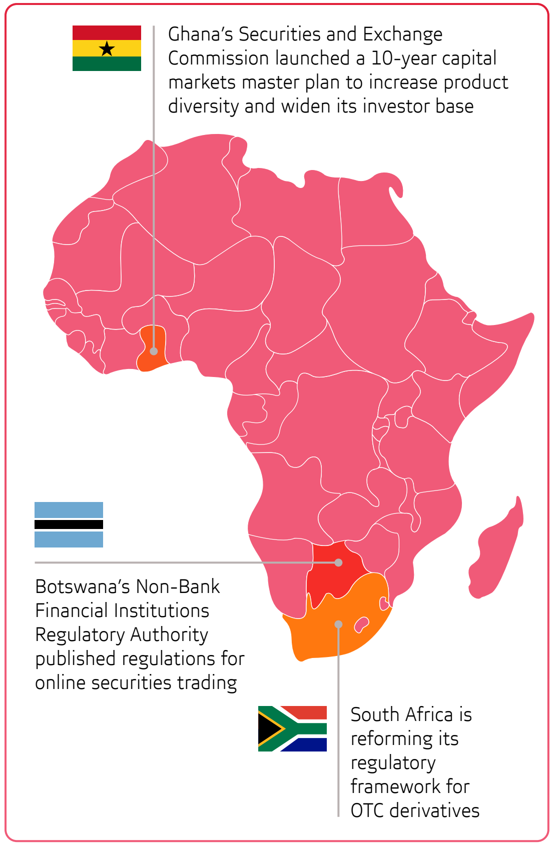
### Regulation within an evolving context

The democratisation of finance through technology advancement demands that regulators carefully weigh the relative importance of public access to products, financial stability, and consumer protection. This has taken place against a backdrop where technological advances have activated new entrants and potential competitors.

Recently, we have seen regulators and governments encouraging competition in financial services by providing digital banking and e-money licences to new entrants. Moreover, initiatives by regulators indicate shifts to the industry over the medium to long term with efforts to further monitor the conduct of financial institutions, adopt interbank offered rates and increase requirements on digital management.

## Impact on our business model

The potential for penalties and regulatory sanctions for non-compliance to legislation and conduct in our markets are increasing in number and severity. While up-to-date regulation is critical to promote responsible banking, and protect customers and banks alike, the pace of change of these regulations requires a coordinated, comprehensive and forward-looking approach. We therefore continue to bolster our regulatory capabilities to anticipate, influence and respond to our changing regulatory landscape while continuously assessing the likely impact of regulatory shifts on our business model and strategic priorities.



# Legal and regulatory continued

*“We continue to bolster our regulatory capabilities to anticipate, influence and respond to our changing regulatory landscape while continuously assessing the likely impact of regulatory shifts on our business model and strategic priorities.”*

## Basel III

Introduces standardising of risk-weighted assets calculations used by banks and limiting the use of internal rating-based (IRB) models. This will result in banks allocating more risk and capital to many products, and the price of some banking products could increase.

## Sustainable finance

The SARB established the Prudential Authority Climate Think Tank to coordinate activities with National Treasury on its technical paper ‘Financing a Sustainable Economy’ published in 2020. The paper formulates recommendations for regulators and supervisors on sustainable finance and climate risk.

## Crypto and digital currencies

In a 2020 survey by the Bank for International Settlements, the SARB was among 68 central banks confirmed to be researching Central Bank Digital Currencies in retail. Banks need to strategically prepare architecture to be trusted partners and prepare infrastructure to transact locally and across borders.

## Cybercrime and information security

Basel guidance on Operational Resilience and other global regulatory standards (e.g., in the EU/UK) have shown potential standards for South Africa going forward (The existing Guidance Note from the Prudential Authority is to be refreshed in the coming year).

## Updated payments standard

Enabling and regulating industry payment initiatives are in flight during the medium-term plan period. This includes national payment systems, such as rapid payments in SA and domestic card schemes, among others.

## Foreign exchange and rate reforms

Regulators are formulating transition plans to discontinue current benchmark rates, including interbank offered rates (IBOR) and the Johannesburg interbank average rate (JIBAR). IBOR was discontinued at the end of 2021. Regulators and governments in ARO have signalled an appetite to reform foreign exchange policies.

## Data privacy and protection

Increasing cloud adoption and alternative locations for hosting data have led to additional restrictions. Protection of Personal Information Act (POPIA) has become an essential requirement in the SA Retail segment, given the use of AI and partnering with third parties. In addition, data protection and cybersecurity regulations in some ARO markets have led to the localisation of data centres.

# Our stakeholders' needs and expectations

We recognise that the quality of our relationships with stakeholders impacts our ability to fulfil our purpose. We therefore measure the quality of our relationships through various mechanisms to make an informed assessment.

## Investor community

Page 64

### Who they are

- Over 43 000 local and international shareholders, including retail investors, asset managers, pension funds, sovereign wealth funds and corporate holdings
- Investment analysts
- Prospective investors
- Debt investors and credit rating agencies.

### Needs and expectations

- Strong operational performance including efficiency, revenue growth and returns
- Maintaining a well-capitalised balance sheet (strong capital and liquidity positions)
- Adequate, sustainable shareholder returns
- Sound risk management
- Transparent reporting and disclosures and effective communication
- Sound ESG practices.

### Strategic response/value proposition

We effectively manage risk and create sustainable returns by:

- Ensuring Absa remains well-diversified both by revenue streams and geography
- Maintaining substantial market share in our presence countries
- Offering improving shareholder returns and a rising dividend pay-out ratio
- Ensuring strong capital and liquidity levels to support a solid balance sheet.

### Measuring performance

- ▼ Speed of succession planning
- ▲ R85.9 billion revenue (2020: R81.4 billion)
- ▲ R18.6 billion headline earnings (2020: R8.0 billion)
- ▲ Total shareholder return: 29.9% (2020: (15.6%))
- ▲ 15.8% return on equity (2020: 7.2%)
- ▼ 0.77% credit loss ratio (2020: 1.92%)
- ▼ 55.2% cost-to-income ratio (2020: 56.0%)
- ▲ Dividend of 785 cents declared (2020: Nil)
- ▲ All shareholder resolutions passed, including 85% for our remuneration policy and 94% for our implementation report.

### Quality of relationship

Poor  Good

Our ranking is based on total shareholder return.

## Customer

Page 65

### Who they are

- **Individuals:** Entry-level to high net-worth, across all ages
- **Businesses:** Sole proprietors; small and medium enterprises; large corporates and multinationals
- **Public sector:** Local, provincial and national government and state-owned enterprises
- **Various other legal entities** such as development finance financial institutions, trusts, other governmental entities and associations.

### Needs and expectations

- Cost-effective, convenient and innovative financial services
- Credible brand, trustworthy relationship, safety and protection against fraud encompassing physical and data security
- Responsible banking with transparent pricing
- Excellent customer service and advice
- System reliability and ability to transact through their chosen platform
- Best practice safety measures for customer wellbeing.

### Strategic response/value proposition

We deliver innovative technologies and propositions to help our customers bring their possibilities to life.

- Improving access to financial services and local, regional and global markets
- Deepening relationships with customers through a life-stage/ecosystem approach
- Providing an extensive and accessible network combining physical outlets, call centres, digital platforms and strategic partners
- Protecting data privacy and ensuring cybersecurity through robust technology and data management.

### Measuring performance

- ▼ 79.5% Treating Customers Fairly score (2020: 80.4%)
- ▲ 82% RBB SA customer experience (2020: 80%)
- ▲ 79% CIB customer experience (2020: 72%)
- ▼ 66% ARO Business Bank customer experience (2020: 69%)
- ▲ 76% ARO Retail Bank customer experience (2020: 72%)
- ▼ 37% NPS[1] RBB SA (2020: 38%)
- ▲ 24% NPS ARO Retail (2020: 20%)
- ▼ 9% NPS ARO Business banking (2020: 11%).

[1] Net Promoter Score (NPS).

### Quality of relationship

Poor  Good

We achieved a 79.5% Treating Customers Fairly score in the SA – CSI index.

# Our stakeholders' needs and expectations continued

## Employees

Page 50

### Who they are

- 35 267 employees (South Africa 25 908, ARO 9 180; international 179)
- 60.9% women and 39.1% men
- 77.3% AIC[2] employees (South Africa)
- 54% below the age of 40 and 84.6% below the age of 50
- 15 recognised employee trade unions covering 38.1% of employees.

### Needs and expectations

- An ethical workplace with opportunities to contribute to society and one that is supportive of environmental and social sustainability
- A diverse, inclusive and supportive workplace where all employees are treated equitably without bias
- Job security, strong leadership and change management, especially during the COVID-19 pandemic
- Dynamic working hours and workspaces
- Fair pay and terms of employment with market-related reward and benefits
- Training, development and career opportunities
- A safe workplace.

### Strategic response/value proposition

We create an environment where employees can fulfil their potential and deliver excellence to our customers by:

- Creating differentiated experiences and inspiring a diverse and inclusive workforce
- Attracting and retaining the best talent
- Encouraging self-led development and opportunities for career progression
- Delivering performance-based reward and recognition
- Providing a comprehensive wellness programme and supporting different ways of work.

### Measuring performance

- ▲ 80% response rate for employee experience survey (2020: 73%)
- ▲ 64.7% achieved in the Employee Experience Index (2020: 64.1%).
- ▲ 71.1% engaged employees[1] (2020: 69.6%).
- ▼ 8.7% permanent employee turnover rate (2020: 7.0%)
- ▼ 95.4% retention of high-performing employees (2020: 96.5%)
- ▲ 52.6% senior AIC[2] management (2020: 50.7%) remains below target
- ▲ R449 million invested in training and development (2020: R406 million).

[1] As measured through the Employee Experience Index.
[2] All African, Indian or Coloured employees qualifying for South African citizenship by birth or descent, or employees who were naturalised before 27 April 1994.

### Quality of relationship

Poor — Good

Our overall employee experience score for 2021 was 64.7%.

## Regulators

Page 68

### Who they are

- **South Africa:** Reserve Bank; the Prudential Authority; the National Payments System Department and the Financial Surveillance Department; the Financial Sector Conduct Authority; National Credit Regulator; Revenue Service; National Treasury; Financial Intelligence Centre; the Information Regulator; the South African Revenue Services and the JSE
- **ARO:** Central Banks/banking regulators; capital markets, securities and revenue authorities; insurance regulators and local stock exchanges
- **UK and US:** Financial Conduct Authority, Prudential Regulation Authority and the US Securities and Exchange Commission
- **Other** relevant government departments, including, but not limited to, labour, health, environmental, and trade and industry.

### Needs and expectations

- Compliance with all relevant laws and regulations
- Financial system stability spanning financial soundness to fair treatment of customers
- A business responsive to regulatory change
- An ethical work environment
- Contribution to governmental development plans and national priorities as well as to the fiscus through fair tax payments.

### Strategic response/value proposition

We support the creation of an environment that facilitates sustainable growth for all.

We do this by working with regulators and providing input into policymaking and the development of regulations.

- Comprehensive regulatory change management programme
- Facilitating responsible banking by ensuring appropriate due diligence is followed.

### Measuring performance

- ▲ 12.82% common tier 1 equity ratio (2020: 11.2%) remains within the Board target range and above minimum regulatory requirements
- ▼ 116.8% liquidity coverage ratio (2020: 120.6%) remains above regulatory requirements
- ▲ 116.1% net stable funding ratio (2020: 115.9%) remains above regulatory requirements
- ▲ 98.17% of employees completed preventing financial crime training (2020: 92.02%)
- ▲ 96.3% of employees completed the Absa Way Code of Ethics training in 2020 (2021 cycle due date not yet reached).
- = R2.1m in regulatory fines and penalties (2020: R9.8m)

### Quality of relationship

Poor — Appropriate

We seek to maintain appropriate relationships with regulators in our presence countries.

# Our stakeholders' needs and expectations continued

## Society

Page 70

### Who they are

- Individual citizens
- Communities
- Civil society organisations
- Non-governmental organisations
- Media
- Suppliers.

### Needs and expectations

Meaningful contribution towards scalable and innovative solutions that address societal and economic challenges. This includes supporting the post-COVID-19 pandemic recovery efforts as articulated in:

- The national development plans, including transformation
- The UN SDGs
- Global ESG frameworks.

### Strategic response/value proposition

We actively contribute towards helping create inclusive sustainable economic growth aimed at positively impacting the communities we operate in, through:

- Providing products and services with a positive social impact
- Supporting inclusive growth by supporting national development objectives and policies
- Preparing young people for the future of work
- Advancing financial literacy and inclusion
- Supporting an inclusive and responsible supply chain
- Generating and distributing economic value.

### Measuring performance

- ▲ B-BBEE Level 1 (2020: Level 2).
- ▼ R195 million citizenship disbursements, including R23 million spent in supporting the COVID-19 response across the continent to protect lives and livelihoods and R11 million in response to civil unrest in South Africa (2020: R380 million)
- ▼ 32 639 consumer education participants (2020: 50 246)
- ▲ 86.2% B-BBEE procurement as a percentage of South African total (2020: 81.4%)
- ▼ Total procurement spend for the Group was R20.5 billion (2020: R20.9 billion).

### Quality of relationship

Poor — Good

Our B-BBEE level improved from the prior year and we have reached many consumers through financial education programmes, however the pandemic hampered roll-out of some citizenship initiatives.

## Planet

Page 75

### Who they are

The natural resources on which we, our stakeholders, and future generations depend.

### Needs and expectations

- Comprehensive climate change response, increased transparency in risk management and sustainability-related policies and standards
- Proactive management of the environmental and societal impacts of our business to encompass lending practices and our operational footprint
- Mobilising funds to support the just transition to a low-carbon economy and support for other environmental priorities such as a circular economy and responsible consumption.

### Strategic response/value proposition

We seek to address climate change and play an active role in minimising pressure on nature's resources by:

- Supporting customers in responsible consumption and the transition to a low-carbon economy
- Advancing our environmental and social risk management practices and capabilities in climate risk management
- Minimising our direct environmental impacts.

### Measuring performance

- ▲ Improved all seven ESG ratings
- ▲ R19 billion in renewable energy lending (84% of projects approved under REIPPP Programme[1])
- ▲ 3 219 transactions screened for environmental and social impacts (2020: 2 949)
- ▼ Two Equator Principles transactions (2020: three)
- ▲ 5.02 $tCO_2$ carbon emissions per full-time equivalent employee (2020: 4.81 $tCO_2$).

[1] Department of Mineral Resources and Energy's Renewable Energy Independent Power Producer Procurement (REIPPP) Programme.

### Quality of relationship

Poor — Good

Our ESG ranking among banks globally is in the 80th percentile.

# Stakeholder scorecard

| | Indicator | How does it link to value creation? | 2021 | 2020 | Benchmark/peer average | Assurance type |
|---|---|---|---|---|---|---|
| **Investors** | Revenue[1] | Business performance | **R85.9bn** | R81.4bn | South African peer[2] average: R92.2bn[3] | MBO |
| | Return on equity[1] | Business performance | **15.8%** | 7.2% | South African peer[2] average: 12.9% | MBO |
| | Cost-to-income ratio[1] | Business performance and efficiency | **55.2%** | 56.0% | South African peer[2] average: 56.4% | MBO |
| | Total shareholder return | Wealth creation for shareholders | **29.9%** | (15.6%) | FTSE/JSE – Bank index: 29% | MBO |
| **Customers** | Treating Customers Fairly outcome score | Fair treatment experienced by customers | **79.5%** | 80.4% | South African peer[2] average: 82.8% | EXT |
| | Net Promoter Score – RBB SA | Service quality experienced by customers | **37%** | 38% | South African banking industry average: 36% (2021 SA – CSI, Consulta) | EXT |
| | Net Promoter Score – ARO Retail Banking | Service quality experienced by customers | **24%** | 20% | | EXT |
| | Net Promoter Score – ARO Business Banking | Service quality experienced by customers | **9%** | 11% | | EXT |
| | Client experience (CX) – CIB | Service quality experienced by customers | **88%** | 88% | NA | EXT |
| | Brand value ranking (Brand Finance Africa)[4] | Brand value | **6th** | 4th | First National Bank: 3rd; Nedbank: 8th; Standard Bank: 5th | EXT |
| **Employees** | Colleague experience index | Engaged employees | **64.7%** | 64.1% | Internal target of 65.6% | EXT |
| | Retention of high-performing employees | Ability to retain high-performing employees | **95.4%** | 96.5% | NA | MBO |
| | Permanent employee turnover rate | Ability to retain employees | **8.7%** | 7.0% | South African financial services industry average[5]: 11.9% | MBO |
| | Internal promotions (number) | | **1 812** | 797 | NA | MBO |
| | Diversity: Internal promotions (women) | Development of internal skills and capability | **46.2%** | 51.7% | NA | MBO |
| | Diversity: Women in senior management | Progress of women in leadership positions | **35.0%** | 35.5% | B-BBEE target: 30% | MBO |
| | Diversity: AIC[6] employees | Demographic alignment | **77.3%** | 76.4% | NA | V |
| | Diversity: Senior AIC[6] management | Demographic alignment | **52.6%** | 50.7% | B-BBEE target: 60% | V |
| | Training spend | Employee development investments | **R449m** | R406m | NA | MBO |
| | Staff costs | Employee remuneration and benefits | **R26.1m** | R25.1m | NA | MBO |
| | Annual unionised salary increase[7] | Salary increases for bargaining unit | **5.8%[8]** | 4.1%[8] | South African peer[2] average: 4.6%[8] | MBO |
| | Absentee rate | Wellness of our employees | **1.71%** | 1.12% | Sick leave benchmark: 1.6% (Financial sector benchmark per Stats SA) | EXT |

[1] Normalised.
[2] FirstRand, Nedbank and Standard Bank.
[3] FirstRand annualised revenue.
[4] New survey implemented in 2020. Measures the top 150 most valuable African brands.
[5] As at the date of publication, Stats SA has not yet updated industry averages.
[6] All African, Indian or Coloured people qualifying for South African citizenship by birth or descent, or people who were naturalised before 27 April 1994.
[7] South Africa.
[8] 5.8% based on 2022 pay cycle (2020: 4.1% based on 2021 pay cycle). Peer average based on 2021 pay cycle.

EXT – external source.
LA – Limited assurance.
MBO – Management and Board oversight.
V – B-BBEE verified.
NA – Not applicable.

## Stakeholder scorecard continued

| | Indicator | How does it link to value creation? | 2021 | 2020 | Benchmark/peer average | Assurance type |
|---|---|---|---|---|---|---|
| **Society** | Citizenship disbursements | Contribution to education and skills, health and social justice | **R195m** | R380m | NA | MBO |
| | Consumer education (number of beneficiaries) | Contribution to education | **32 639** | 50 246 | NA | V |
| | Local procurement as a percentage of South African total[7] | Supporting local suppliers | **86.2%** | 81.4% | NA | V |
| **Planet** | Number of transactions screened for environmental and social impacts[9] | Lending impact on the environment and society | **3 219** | 2 949 | NA | MBO |
| | Carbon footprint per full-time equivalent employee[10] | Operational impact on the environment | **5.02t$CO_2$** | 4.81t$CO_2$ | South African peer average[2]: 4.49t$CO_2$ | MBO |
| | Energy | Operational impact on the environment | **228 925 027** | 229 695 395 | South African peer average[16]: 176 871.0 | LA |
| | Carbon emission | Operational impact on the environment | **192 369** | 196 146 | South African peer average[2]: 163 572 | LA |
| **Regulators** | Common tier 1 equity ratio | Basel compliance/strength of capital | **12.8%** | 11.2% | SARB[11] minimum: 7.5% | MBO |
| | Liquidity coverage ratio | Basel compliance/strength of liquidity | **116.8%** | 120.6% | SARB[11] minimum: 80% | MBO |
| | Net stable funding ratio | Basel compliance/strength of funding | **116.1%** | 115.9% | SARB[11] minimum: 100% | MBO |
| | Regulatory fines and penalties | Adherence to regulatory requirements | **R2.1m** | R9.6m | NA | MBO |
| | Corporate taxes paid[12] | Contribution to government funds | **R7.6bn** | R3.6bn | NA | MBO |
| | Indirect taxes paid[13] | Contribution to government funds | **R1.9bn** | R1.9bn | NA | MBO |
| | Number of cases opened – Ombudsman[14] | Adherence to regulatory requirements | **1 071 cases** | 943 cases | Lowest number of complaints from the Ombudsman for Banking Services of the "Big 5" banks | EXT |
| | Employees completing the Absa Way Code of Ethics training | Ethical culture | **In progress[15]** | 96.3% | NA | MBO |
| | Employees completing Preventing Financial Crime training | Skilled employees preventing criminal behaviour | **98.2%** | 92.0% | NA | MBO |
| | B-BBEE level | Corporate transformation | **Level 1** | Level 2 | South African peers[2] Level 1 | V |

[2] FirstRand, Nedbank and Standard Bank.
[7] South Africa.
[9] Includes Equator Principles.
[10] 35 267 full-time equivalent employees (2020: 36 204).
[11] SARB. Effective 1 April 2020, the minimum liquidity coverage ratio requirement was temporarily reduced from 100% as part of the relief measures implemented following the COVID-19 pandemic.
[12] Tax paid by entities incorporated under the laws of the country in which it is effectively managed. It therefore excludes foreign tax expenses or withholding tax paid by a non-resident company.
[13] Payroll (based on social security policies, excluding taxes borne by employees), irrevocable VAT, withholding tax and other taxes.
[14] Absa had an increase of 14% in reported cases against an industry increase of 7%.
[15] The 2021 cycle of ethics training was launched in November 2021 with a 2022 due date.
[16] Standard Bank and Nedbank only.

EXT – external source.
LA – Limited assurance.
MBO – Management and Board oversight.
V – B-BBEE verified.
NA – Not applicable.

# Material matters

## Materiality determination process

As a financial services provider, we play a pivotal role in the economic activity of individuals, businesses, and nations, helping to create, grow and protect wealth through partnerships in economic development. Many factors affect our ability to create value, including our operating environment, stakeholders, responses to risks and opportunities and our chosen strategy. This report provides the context for what we have deemed our material matters – those which can significantly affect our ability to create or preserve value, or lead to value erosion, over the short, medium, and long term. Our materiality determination process is discussed and illustrated as follows:

### 1. Identifying a list of potential matters considering:

- The external environment (pages 20 to 24)
- Our strategic intent (pages 39 to 44)
- Stakeholders' legitimate needs and expectations (pages 25 to 29)
- General and industry-specific assessments.

### 2. Considering the relevance of identified matters by:

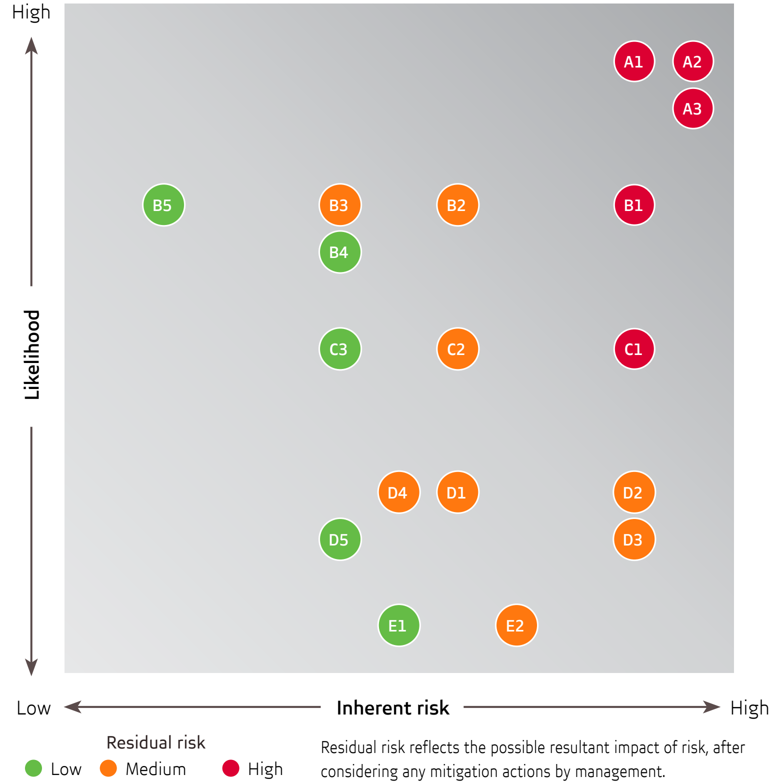
- Validating potential matters through local, regional, and global peer review
- Understanding their significance within our industry through scrutiny of thought leadership
- Engaging with various internal functions, including strategy, risk, investor relations, company secretariat, sustainability, and citizenship
- Noting whether matters are key topics of discussion at Board committee meetings
- Understanding root causes of changes in performance
- Identifying differences in geographical risk and opportunities: In 2021, we did not identify significant variances from one presence country to another.

### 3. Assessing the importance of a matter, taking into consideration:

- Our deep-dive strategy review process, including a detailed business environment assessment, alongside risk and opportunities
- The likelihood of a risk or opportunity coming to fruition
- The arena of the effect, be it internal or external
- Our risk appetite framework to ensure a balanced approach between future growth and responsible risk management
- Quantitative and qualitative factors that influence the risk appetite of each principal risk
- Our integrated planning process, considering:
  - Potential opportunities and prospects
  - Response to changing consumer needs and dynamics
  - Resource needs and relative availability
  - The trade-offs between possible responses
  - Timing and execution requirements
  - The importance to, and impact on, our strategy
  - Contribution to strengthening Absa's brand equity and reputation.

### 4. Prioritising material matters

Prioritising material matters enables us to respond quickly to risks and opportunities specific to Absa and our strategic intent, magnifying our ability to create value. Prioritisation of the risks and opportunities arising from the operating context is based on our Risk and Issue Classification Standard.




Residual risk reflects the possible resultant impact of risk, after considering any mitigation actions by management.

# Risks arising from the operating environment

The Russia-Ukraine conflict has significantly increased already high levels of global uncertainty and is expected to impact global markets, outlooks and the expectations of the markets in which the Group operates. This is expected to materially heighten risks faced by financial market participants and the global and domestic economies. Active monitoring of the events unfolding in Europe and continuous assessments of the Group's exposure and potential risks, both direct and indirect, is ongoing as the impact on various markets will not be uniform. Sensitivity to energy inflation and certain commodity prices will be elevated and are being monitored. The Group has assessed that its direct exposure to Russia is currently negligible. The Group's focus remains on proactive risk and capital management to positively position itself as the spillover impact of the conflict unfolds. Risks are actively identified, and the consolidated response monitored to ensure effective implementation achieving the targeted result. Scenario analyses is used in the early detection of potential areas of weakness and to assess response effectiveness.

Globally, high levels of uncertainty have kept the risks faced by financial market participants and the economy heightened. The Group's focus remains on proactive risk and capital management to positively position itself for the future. Risks are actively identified and the consolidated response monitored to ensure effective implementation achieving the targeted result.

The risks arising from the operating context as disclosed in the Group's Pillar 3 Risk Management Report are tabled below, along with management responses. Numeric number icons e.g., [A1], [B1] etc link the Pillar 3 disclosure to discussions of our material matters on pages 33 to 38.

**Diving deeper:** Absa Group Pillar 3 Risk Management Report, pages 6 and 7.

| Current and emerging risks | Management's response |
|---|---|
| **Global and local economic recovery uncertainty**<br>• [A1] Recovery of economic activity remains under pressure from further variants and waves of infections while being impacted by the disparate government responses, COVID-19 vaccine rollouts and uptake.<br>• [A2] Increasing global inflation driving fiscal policy tightening will affect growth and economic recovery, potentially introducing supply-side inflation into economies under economic pressure.<br>• [A3] High sovereign debt levels, combined with reduced debt and interest servicing capacity, increase the possibility of sovereign defaults and an emerging markets debt crisis. | • Maintain a dynamic approach to risk appetite setting in response to the outlook for 2022 and beyond.<br>• Use scenarios to evaluate the potential outcomes of a variety of external and internal factors. Management develops mitigating actions and assesses their effectiveness to guide decision-making on an ongoing basis.<br>• Monitor downside risk presented by the uncertainty in the outlook where the economic recovery is likely to be unstable and manage risk reduction strategies. |
| Risk types affected: credit, market, treasury, business, insurance, operational, resilience, sustainability | |
| **Strategic, execution and business risks arising from external and internal drivers**<br>• [B1] Global uncertainty arising from developed markets protectionism, international relations and other market drivers, which result in increased pressure on emerging markets.<br>• [B2] Actions taken to limit the impact of COVID-19 resulted in economic hardship, higher unemployment, increased inequality, and lower business and consumer confidence.<br>• [B3] Power supply disruptions in certain markets continue to negatively impact stakeholders.<br>• [B4] Disruption through changing customer preferences and competitor offerings.<br>• [B5] Potential adverse impact of large strategic change projects on business risk, change risk and people risk. | • Monitor and manage risk strategy and risk appetite based on the ongoing evaluation of global and regional developments to identify and mitigate risks as they arise. This includes re-evaluating credit policies and operational and resilience processes while enabling business to pursue selective strategic opportunities.<br>• Ongoing alignment of risk objectives with the Group's strategy to support its customers and communities efficiently, responsibly and sustainably.<br>• Actively engage governments, communities and customers to support initiatives to address economic hardship.<br>• Ensure sufficient investment to continue delivering scalable digital solutions that focus on current and evolving customer needs.<br>• Build and embed a winning brand with a focus on innovative business processes and products designed to meet unique customer needs and preferences.<br>• Ensure strategic and large change projects are properly scoped, fully capacitated and closely monitored through senior oversight, including independent quality assurance. |
| Risk types affected: credit, market, treasury, business, insurance, operational, resilience, model, sustainability | |

| Current and emerging risks | Management's response |
|---|---|
| **Environmental and social risks impact the Group, its customers and operating environment**<br>• [C1] Adverse impact of ongoing and rapid climate and social change on communities and customers will sharply heighten the Group's credit and insurance risks.<br>• [C2] Evolving complexities in the management of social trends and the societies and political environments in which the Group operates.<br>• [C3] Increasing expectations from stakeholders to integrate sustainability risk management practices with business activities. | • Implement the United Nations Environmental Programme Finance Initiative Principles for Responsible Banking and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).<br>• Reduce our direct environmental footprint in line with the Group's 2030 environmental action plan and understand physical climate risk impacts.<br>• Embed processes encouraging customers to adopt business strategies and practices aligned with the Group's sustainability policy.<br>• Develop financing standards for other climate sensitive industries in line with the existing coal financing standard.<br>• Continuously enhance credit and insurance risk models to assess the impact of climate change risk.<br>• Continue to develop internal capabilities to utilise scenario analyses and stress testing to better estimate the impact of climate change on the Group's portfolio to inform the review and alignment of Absa portfolios for climate change risk and opportunities.<br>• Regularly assess the suitability and strategic alignment of products and customer value propositions with changing environmental and social factors and the impact on the Group's risk profile.<br>• Maintain focus on the financial inclusivity of customers, including the ongoing support of small and medium-sized enterprises. |
| **Risk types affected: credit, market, treasury, business, insurance, operational, resilience, model, conduct, reputational, sustainability** | |
| **Heightened resilience, fraud, financial crime, people and cyber risks expected for the foreseeable future**<br>• [D1] Heightened risk of social unrest due to weak economic environments and poor service delivery.<br>• [D2] Heightened fraud and security risks arising from economic pressure.<br>• [D3] Increasing opportunistic financial crime and cybercrime, combined with rising sophistication of criminal activity, impacting customers and the Group.<br>• [D4] Increasing exposure to potential data leaks arising from third- and fourth-party suppliers.<br>• [D5] Heightened risk to employee wellness from the pandemic and a prolonged work-from-home situation. | • Maintain focus on physical and digital operational resilience and proactively identify and mitigate risks.<br>• Maintain high stability of the technology estate to minimise incidents impacting customers and operational effectiveness.<br>• Continue to invest in security platforms and continuously evolve controls to secure customer information, including investments in technology, data capability (including external intelligence), customer awareness campaigns and industry collaboration.<br>• Embed a strong and resilient risk culture across the Group through ongoing awareness and training.<br>• Enhance due diligence performed on third-party suppliers through ongoing review and monitoring of controls.<br>• Monitor and manage the impact on employees through an expanded Group wellness programme and support employees in the evolution of working environments. |
| **Risk types affected: credit, business, insurance, operational, resilience, conduct, financial crime** | |
| **Increased compliance risk due to new and emerging regulations and oversight**<br>• [E1] Increasing pace and evolving complexity of regulatory and statutory requirements across the Group's markets impact on the current business model, including:<br>○ Finalisation of Basel III<br>○ Benchmark reform<br>○ Sustainability regulations<br>○ Depositor Insurance Scheme<br>○ Conduct, culture and governance supervision<br>• [E2] Potential long-term impact of regulatory changes on business strategy and Group performance. | • Maintain a forward-looking approach to evaluate, respond to and monitor regulatory and statutory change.<br>• Engage with regulatory authorities and other stakeholders on upcoming regulatory changes to ensure the most appropriate outcomes for the banking sector and broader economy.<br>• Strengthen a culture of sound regulatory compliance across the Group.<br>• Develop systems with the agility to accommodate rapid change.<br>• Understand the impact of future requirements on the current business model and practices, and proactively make necessary changes. |
| **Risk types affected: credit, market, treasury, insurance, operational, resilience, model, reputational, sustainability** | |

# Unpacking our material matters

## Maintaining economic momentum

### Description

Recovering from the lows of the 2020 global recession and creating momentum toward economic recovery remains top of mind for governments and businesses globally. While specific sectors and countries show signs of recovery, momentum can be significantly affected by further waves of infections, coupled with access to vaccines, the efficacy of vaccine rollouts and disparate sovereign responses [A1]. This is particularly important for industries hardest hit by the pandemic, such as tourism. Russia's Ukrainian invasion also carries enormous risks for the global economy. The pandemic's primary aftershocks include high inflation and volatile financial markets, and, regrettably, the Ukraine-Russia war looks set to worsen both. [A2], [B1]. In response to these conditions governments across the globe are keeping financial conditions relaxed to boost economic activity. However, we anticipate a degree of repo rate tightening, which will impact the borrowing costs for households and businesses alike and potentially introduce supply-side inflation into economies under pressure.

In our primary market of South Africa, the financial system has displayed a relatively high level of resilience under challenging conditions. Financial markets experienced some volatility and sharp sell-offs in asset prices at times but have held up reasonably well. The level of loan defaults appears to have risen sharply in recent months, and the SARB's internal modelling suggests that it may not have peaked yet. Credit loss and impairment risk remain high, especially if interest rates increase and economic recovery loses momentum, and customers experience continued distress. Increases in long-term and short-term insurance claims can negatively impact Absa's solvency and capital requirements.

Approximately 85% of South Africa's systemically important banks' loans are to South African domiciled entities. Therefore, domestic economic developments have a significant bearing on the credit risk exposures of these institutions[1].

The uncertain and slow economic recovery has reduced the availability of capital, funding and liquidity, which requires Absa to carefully preserve capital, be conservative about discretionary expenditure and proactively manage credit portfolios.

Global uncertainty around economic recovery has resulted in risk aversion to emerging markets from investors in an attempt to protect asset values and de-risk portfolios. Changes in market conditions and uncertainty around international relations place increased pressure on emerging markets [B1]. As a Pan-African bank, the majority of our presence is within emerging economies. African banks can play a leading role in facilitating trade flows within prominent global trade corridors. At the same time, the successful adoption of the African Continental Free Trade Agreement offers many possibilities for intra-Africa trade.

### Impact on value creation

**Capitals and SDGs impacted**

SDG 8 SDG 10 SDG 16

### Principal risks affected

Credit | Market | Treasury | Insurance | Sustainability | Reputation | Business | Model | Operational | Resilience |

**Diving deeper:** Economic momentum, page 20, Interim Group Financial Director's message, page 46, Outlook, page 79.

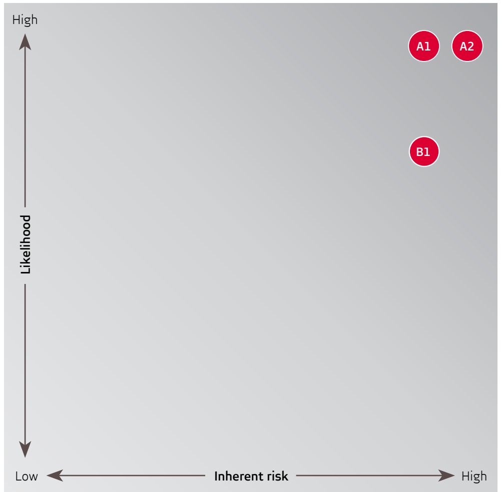
### Link to our strategy

A diversified franchise with deliberate, market-leading growth

The primary partner for our clients

An active force for good in everything we do

Numeric number e.g., [A1], [B1], icons link the Pillar 3 disclosure on pages 31 and 32 our material matters.




[1] South African Reserve Bank, Financial Stability Review, First Edition.

# State-to-sector interconnectedness

## Description

Financial stability is at risk with high sovereign debt levels and reduced debt and interest servicing capabilities leading to potential sovereign defaults and an emerging market debt crisis [A3]. In the past decade, the South African government's debt-to-GDP ratio has doubled, with National Treasury projecting stability to 89% of GDP being achieved by 2026. Based on National Treasury's Medium-Term Budget Policy Statement released in October 2021, public debt is projected to grow from 69.9% of GDP in 2021/22 to 77.8% of GDP in 2024/25. The six credit downgrades received from rating agencies in the past ten years have impacted government creditworthiness. As South Africa continues to attract lower levels of foreign investment, local financial institutions become more exposed to government debt.

Credit downgrades combined with slow economic recovery, along with the increasing cost to service debt, have spurred concerns regarding governments' ability to act as a backstop to the financial sector should another unforeseen market shock arise. The importance of the public sector backstop creates a link between banks' credit ratings and the sovereign. For example, In South Africa, the SARB is currently investigating policy options to address the financial sector-sovereign nexus after the Financial Action Task Force (FATF), the international body that develops and monitors policy to combat financial flows of organised crime and terrorism, warned of a possible grey-listing. Similarly, the Ghanaian sovereign's budget for raising GH₵27.9 billion to fund its deficit could be hampered by recent credit downgrades.

Uncertainty arising from developed market protectionism, international relations, and other market drivers increases pressure on emerging markets [B3]. As a strategy to cope with protectionism, many emerging market governments focus on localisation, often in the form of committing to local greenfield investment and labour practices. This poses an increased barrier to entry for businesses aiming for growth in new markets and is a barrier to trade and investment. Government policy concerning international trade and investment is vital for growth in Africa.

Economic development is reinforced by sound infrastructure investment, as it boosts a country's competitive advantage. To the extent that infrastructure is vital for a country's economic development, it is also crucial in improving the quality of life for the poor, primarily where infrastructure investment is focused on the provision of water, sanitation and electricity. Power supply disruptions in certain markets continue to negatively impact potential investors [B1]. Positively, we have observed an increased focus on infrastructure development by governments in our presence countries.

Absa has the opportunity to support government policies in the collective interests of societies and contribute to a more stable operating environment. We proactively engage with regulators and government to positively influence national agendas.

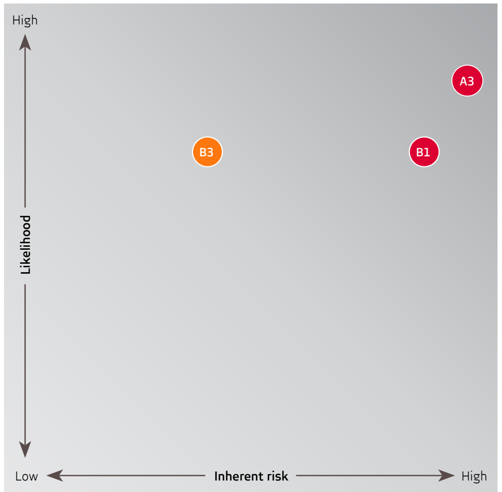
## Link to our strategy

A diversified franchise with deliberate, market-leading growth

The primary partner for our clients

An active force for good in everything we do

Numeric number e.g., [A1], [B1], icons link the Pillar 3 disclosure on pages 31 and 32 our material matters.




## Impact on value creation

**Capitals and SDGs impacted**

SDG 8 SDG 10 SDG 16

## Principal risks affected

Credit | Market | Treasury | Insurance | Sustainability | Reputational | Business | Model | Operational | Resilience

**Diving deeper:** Legal and regulatory, page 23, Regulators, page 68, Outlook, page 79.

# Managing societal change

## Description

Actions taken by governments, such as lockdowns, to curb waves of COVID-19 infections result in economic hardship, higher unemployment, increased inequality, and lower business and consumer confidence. [B2]. These negative impacts are expected to continue until COVID-19 vaccine programmes have reached herd immunity, and new variants of the disease or other potential threats of infectious diseases can be effectively controlled. In South Africa, the effect has heightened risk of social unrest [D1] due to public anger over deteriorating economic conditions and rising fatigue from lockdowns.

The livelihood crisis expresses itself in many forms, including heightened youth disillusionment over ever declining job opportunities, the social discourse created by vaccine mandates, digital divides and geopolitical debates, as well as the stark realities of employees adapting to prolonged work-from-home scenarios [D5]. Moreover, multiple factors such as increasing automation, fundamental evolution in required talent mix, increasing scarcity of key skills (e.g., digital talent), and new ways of working (e.g., hybrid/remote working) are changing what defines a compelling employee value proposition and the manner in which social complexities are managed [C2]. For Absa, this emphasises the need to re-connect to our purpose and the importance of our employee experience. Attracting and retaining the best skills is critical to becoming a winning, talented and diverse team.

The volatility within this context has increased the pressure on businesses to manage employees' health [D5], customers and suppliers and rethink the extent and relevance of our contributions to promoting diversity and inclusion. We believe an opportunity exists to drive financial inclusion through non-traditional finance solutions, supporting social upliftment while enabling business growth. Through our products and services, we support the financial wellbeing of the middle class and extend financial inclusion to lower-income groups, as well as provide inclusive financial services to small and medium-sized businesses, women and youth. Furthermore, by delivering a comprehensive payment relief programme and a full range of client and employee support, we continue to strengthen relationships with our clients while contributing to societal stability.

The pandemic has had a lasting impact not only on employees' work preferences but also on our customers' preferences [B4] in how and what they consume, resulting in disruptions to product and distribution channel relevance. Defending and growing key value pools will require refreshed propositions. New entrants (e.g., digital attackers and challenger banks) are gaining share, often with fundamentally different cost structures, agility, and therefore propositions for clients [B4]. Certain products and geographies require a clear approach to targeting growth. Client numbers and primacy have become even more significant in this increasingly competitive environment. Competition is moving beyond local banks and other financial services players, including e-commerce platforms and retailers. This has led to an increasingly fragmented relationship with clients (e.g., clients being multi-banked). Incumbent competitors are expanding client touchpoints, increasing engagement, and meeting a broader set of needs.

## Link to our strategy

The primary partner for our clients

A winning, talented and diverse team

An active force for good in everything we do

Numeric number e.g., [A1], [B1], icons link the Pillar 3 disclosure on pages 31 and 32 our material matters.

## Impact on value creation

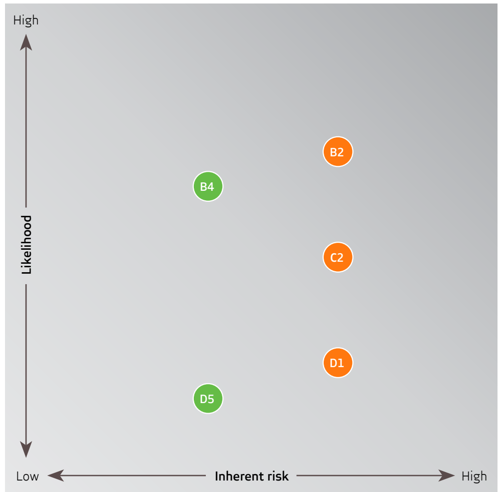
**Capitals and SDGs impacted**

SDG 4 SDG 5 SDG 8 SDG 10

## Principal risks affected

Sustainability | Credit | Insurance | Reputational | Treasury |Business | Model | Market | Operational | Resilience | Conduct

**Diving deeper:** Competition and technological change, page 20, Socio-political environment, page 21, Changing world of work, page 23, Human capital, page 50, Social and relationship capital, page 64.



# Climate change and the green transition

## Description

Extreme weather events brought on by climate change directly affect the banking industry through physical risks to operations and indirectly by physical risks through lending, mortgage investment and trading books.

Transition risks are primarily brought on by the impact of cleaner technology, regulatory and market changes. These risks can result in stranded assets for clients or impact the bank's ability to earn revenue from project finance or transactional banking. There is growing pressure to move away from financing fossil-fuel-based-energy, influencing banks' financing decisions. The SARB views both the physical and transition risks of climate change as material to financial sector stability in South Africa.

Absa is primarily exposed to transition risk by lending to the energy and other high-emission sectors, such as mining, quarrying and manufacturing. To a lesser extent, transition risk impacts asset values in our Markets trading business (within CIB). Extreme weather events, and the associated physical risk, impact our short-term insurance operations by increasing motor, home and household claims. Climate change will adversely affect communities and customers, as well as sharply heighten the Group's credit and insurance risks [C1]. At the same time, a focus on a just transition to a low-carbon economy is necessary to mitigate rising unemployment and reduce inequalities. For South Africa and other emerging markets, a delicate balance must be maintained between a green transition and a just transition, based on impacts to macroeconomic stability.

By leveraging our market-leading experience in renewable energy financing, we are supporting clean energy projects that are economically, environmentally and socially feasible. In this way, we are playing a role in the diversification of electricity supply as articulated in the national development plans of many of the countries in which we operate.

Working through BASA, we are engaging with the South African government regarding plans for an orderly transition, which will allow the country to comply with its international greenhouse gas emission reduction commitments. We are also engaging with the National Treasury's Climate Risk Forum, Presidential Climate Change Coordinating Commission, Green Economy Advisory Group, Business Unity South Africa's Just Transition Task Group and the World Wildlife Fund Landscape Finance Coalition. We are also represented at the International Banking Federation Environmental Committee, a member of the IFC Sustainable Banking Network and a vital partner in the UN Environment Programme Finance Initiative.

Through the work of these committees and initiatives, Absa is actively contributing to the sustainability of the financial sector and economy while keeping it globally competitive as there are increasing expectations from stakeholders to integrate sustainability risk management practices with business activities [C3]. We are further committed to aligning with the Financial Stability Board's TCFD framework for climate change.

Greening capital markets are crucial to attracting investors looking for alternative asset classes while enabling countries to finance sustainable projects. 'Globally, the green bond market has grown significantly, and 2020 issuances, according to the Climate Bond Initiative, were at least USD269 billion. Global Green bond issuances to date exceed USD1 trillion, of which USD150 billion have been certified. Green loans are another debt instrument increasingly identified for lending activities dependent on environmental criteria for the planned use of funds, whether to finance or refinance, in totality or part, new or existing eligible green projects, assets or activities. Similarly, sustainability-linked loans provide a structure that promotes borrowers/companies/financial institutions to meet their SDG goals.'[1] There is significant opportunity in sustainability-linked financing, and as Absa, we have set ourselves the ambition to become the leader in this area. By embedding ESG into all our processes, we mitigate risk and create a competitive advantage by becoming a partner of choice for our corporate clients.

## Impact on value creation

### Capitals and SDGs impacted

SDG 7 | SDG 8 | SDG 13 | SDG 15 | SDG 16

## Principal risks affected

Sustainability | Credit | Insurance | Conduct | Reputational | Treasury |Business | Model | Market | Operational | Resilience

**Diving deeper:** Role of business in society, page 22, Natural capital, page 75.

[1] South African Reserve Bank, Sustainable Finance paper

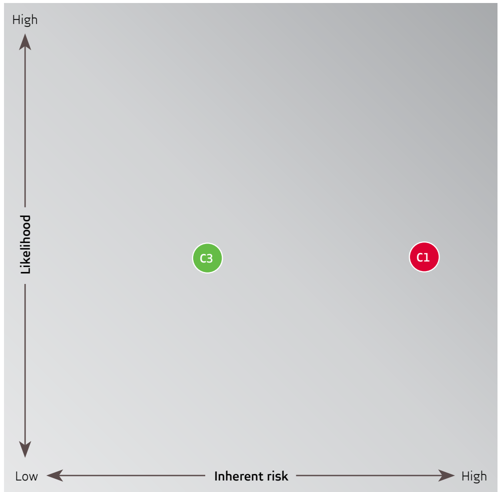
## Link to our strategy

A diversified franchise with deliberate, market-leading growth

The primary partner for our clients

An active force for good in everything we do

Numeric number e.g., [A1], [B1], icons link the Pillar 3 disclosure on pages 31 and 32 our material matters.



# Regulatory change

## Description

Regulation or deregulation directly affects a financial institution's ability to generate or protect value for itself and its customers. The increasing pace and developing complexity of regulatory change and statutory requirements [E1], however, place a heavy burden on financial institutions. Furthermore, within an ever-evolving industry, regulatory change can potentially impact our Group strategy and performance in the long term [E2]. Continuous engagements contribute to our ability to influence the legislative processes related to regulations, directives, guidance notes, conduct standards and the like, which help promote, drive and shape the Group's strategy and ensure the most appropriate outcome for the banking sector and the broader economy.

We see technology as a pivotal opportunity to streamline and simplify regulatory compliance, accommodating rapid change while enabling the Group to provide more effective and secure services to our customers.

In response to the pandemic, many regulators introduced policy changes to protect financial market stability. Restrictions are now being lifted to allow for optimistic economic growth. For example, in South Africa, the Prudential Authority has proposed reinstating bank capital requirements at the pre-COVID-19 level and has adjusted its guidance on paying dividends by banks. Similarly, the Loan Guarantee Scheme is being phased out in 2022. The most widely used policy measure that remains in place is the allowance for banks to restructure credit agreements for borrowers who have been affected by the pandemic without the need to hold additional capital against those loans. Although subsequent waves of COVID-19 seem less aggressive and countries are recovering from the initial shock of the pandemic, most regulators have not allowed financial institutions to revert to pre-pandemic price structures, which could adversely affect future revenue generation for the industry.

Increased competition, technological change and disruptive business models have resulted in regulatory bodies introducing up-to-date regulation to maintain global equilibrium and promote responsible banking, protecting customers and banks alike. However, implementation costs on financial institutions are heavy (although necessary) if they wish to be compliant and free of reputational damage.

Financial Crime Compliance is playing a prominent role in proactively providing input and steering changes in legislation that may result from the recently published Financial Action Task Force (FATF) Mutual Evaluation Report of South Africa. The Mutual Evaluation report follows the assessment that FATF performed on the country's Anti-Money Laundering/Countering the Financing of Terrorism (CFT)/Counter Proliferation Finance (CPF) system.

Absa continues to build and maintain sound, positive and healthy relationships with regulators and government, recognising the essential nature of these role players in ensuring the financial system's stability.

## Link to our strategy

A digitally powered business

An active force for good in everything we do

Numeric number e.g., [A1], [B1], icons link the Pillar 3 disclosure on pages 31 and 32 our material matters.

## Impact on value creation

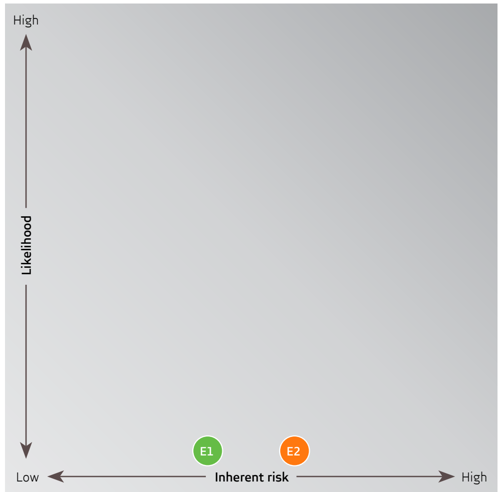
**Capitals and SDGs impacted**

SDG 8 | SDG 10 | SDG 16

## Principal risks affected

Credit | Market | Treasury | Insurance | Conduct | Reputational | Business | Model | Operational | Sustainability | Resilience

**Diving deeper:** Legal and regulatory, page 23, Social and relationship capital, regulators, page 68, Outlook, page 79.



# Digital inclusivity

## Description

The digital revolution offers limitless business opportunities in its product design and access to customers. It does, however, offer the same inclusivity to many new market entrants, increasing competition – especially from mobile network operators – and placing pressure on companies to provide digitally accessible products and services. Conversely, the high cost of capital acts as a barrier to digital inclusivity where businesses have insufficient capital to replace legacy systems and ageing technology. The pace of change is such that companies must think more strategically about technology architecture and the rate and investment of renewal or risk being left behind.

The pandemic accelerated digital adoption with rapid expansion in digital self-service capabilities, e-commerce, online education and remote work. However, this shift can be seen to have exacerbated the digital divide as those with digital access could continue trading, working and learning. In contrast, those without digital access were excluded from these activities, increasing inequality. Furthermore, the widening gap in digital ability poses the threat of the emergence of a digital underclass.

Across all markets, there is an opportunity to improve digital adoption, as mobile penetration is high, supporting financial inclusivity. Partnerships continue to be a key focus as we build our digital propositions and expand customer reach. Reimagining how we do business by accelerating digital sales will enable the Group to capture opportunities in the constrained environment. Improving our ways of working allows us to become faster and more efficient in delivering a great customer experience. By using technologies such as open-source, the cloud, software-as-a-service and modern IT architecture principles, we are transforming our current business into a more cost-effective and connected model, enabling Absa to support our customers in the ecosystems and platforms they choose to transact in.

As much as the changing digital landscape provides opportunities for work and commerce, the same inclusivity relates to greater vulnerability to fraud, cyber and security risks. Opportunistic financial crime and cybercrime are increasing, combined with the rising sophistication of criminal activity [D3]. Economic pressure has increased fraud and security risks [D2]. In addition, data protection and cybersecurity regulation in some ARO markets have led to the localisation of data centres.

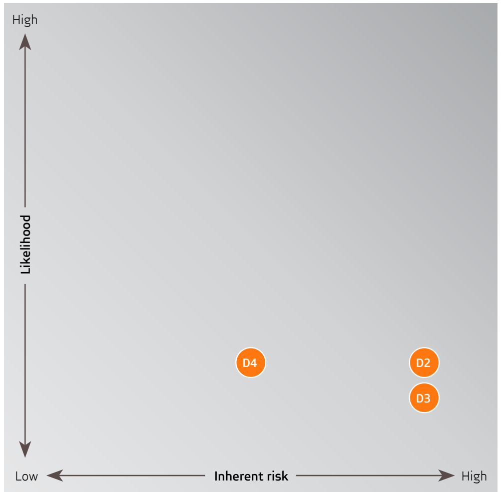
Research by the Bank of International Settlements indicates that the financial sector faced more cyberattacks than other industries. However, due to the significant investment in cybersecurity by the financial sector, the industry has faced lower actual average cybercrime costs.

Reliance on third-party technology service providers has grown, along with the risk associated with an attack on these providers. This risk is heightened as many large financial intermediaries rely on the same third-party firms for critical services. Another risk brought on by third-party technology suppliers is the increasing exposure to potential data leaks [D4]. For the digitally active customer, maintaining and protecting data becomes a key differentiator. As a result, we continue to enhance due diligence performed on third-party suppliers through ongoing review and monitoring of controls.

## Link to our strategy

- A diversified franchise with deliberate, market-leading growth
- The primary partner for our clients
- A digitally powered business
- A winning, talented and diverse team
- An active force for good in everything we do

Numeric number e.g., [A1], [B1], icons link the Pillar 3 disclosure on pages 31 and 32 our material matters.




## Impact on value creation

**Capitals and SDGs impacted**

SDG 4 SDG 8 SDG 10 SDG 16

## Principal risks affected

Operational | Financial Crime | Resilience | Model | Credit | Business | Insurance | Conduct

**Diving deeper:** Competition and technological change, page 20, Changing world of work, page 23, Intellectual and manufactured capital, page 57.

*"In 2018, after announcing our separation from Barclays PLC, we embarked on a journey to define a new strategy, a new identity and a new direction and purpose. Over the past three years, this strategy has served us well and helped us bring possibilities to life for our stakeholders."*

# Strategic overview

We have outperformed our competitors financially and operationally in many areas, our balance sheet has remained strong, and we have continued to digitally reengineer our businesses. We have done all of this while successfully separating from Barclays PLC and receiving recognition for how we navigated the COVID-19 crisis.

Indeed, COVID-19 has had a profound impact on our society – our internal and external environments have changed rapidly, and in ways we could not have predicted. At the same time, it has accelerated the shift to digital, fundamentally transformed ways of working, and changed expectations of private institutions and their role in supporting society. We are also seeing the emergence of new competitors, the rise of ecosystems and new propositions, and regulatory shifts that impact the operating context.

Despite this changing environment, through our strategic review process, it became clear that a fundamental shift in strategic direction was not required, but rather, a refresh of the tenets within our 2018 strategy. In this way, we could build on our success and momentum, learning from the last three years, while adapting our strategy based on the changing internal and external environment.

As a result, we have re-anchored and refreshed our 2018 strategy, reflected in a revised set of strategic choices to accelerate momentum in 2021.

| Before Separation | 2018 strategy | Accelerating momentum in 2021 |
|---|---|---|
| Return on equity only | Strong growth focus with sustained high returns | A diversified franchise with deliberate market-leading growth |
| Optimising within current geographic footprint | African organisation with globally scalable platforms | A leading African bank bringing possibilities to life |
| Centralisation, functionalisation and standardisation | Client-focused operating model | The primary partner for our clients |
| Control-based culture | Culture of entrepreneurship, autonomy and ownership | A winning, talented and diverse team |
| Relying on traditional strengths | Digital bank | A digitally powered business |
| Passive good corporate citizen | Active force for good in society | An active force for good in everything we do |
| Incremental growth strategy | Growth via acquisitions, and disposal of non-core assets | Sustainable capital allocations and risk-adjusted returns |

## Strategic framework

We have set our aspiration to be a leading African bank bringing possibilities to life. To achieve this, we have identified five strategic themes:

- **A diversified franchise with deliberate, market-leading growth:** We will tailor our approaches to our clients, grow in attractive segments and launch new products, allocate our capital sustainably and manage risk.
- **The primary partner for our clients:** We will understand their needs and meet them on every level. We will build a brand our people and our clients can be proud of.
- **A digitally powered business:** We will offer the best digital experience, use data as a strategic asset and evolve continuously to create a nimble organisation.
- **A winning, talented and diverse team:** We will turn our culture into a competitive advantage, attract Africa's top talent and support and enable our people.
- **An active force for good in everything we do:** We will manage climate change and biodiversity risks and opportunities, make a difference to the societies in which we operate, ensure the highest standards of governance and ethics and actively influence public policy and regulation.


## Strategic theme

### A diversified franchise with deliberate, market-leading growth

**We will be purposeful about where we compete, identifying attractive growth pockets by geography, segment, and product. We will allocate our capital sustainably and manage risk appropriately. Our priority actions include:**

#### RBB

- Deliver innovative propositions for the SME, youth and entry-level segments
- Continue to strengthen our core middle-market and retail-affluent propositions
- Enhance our integrated channel strategy, leveraging micro market-based insights to enable the expansion of our footprint while optimising floor space and ATM networks
- Pursue opportunities in bancassurance, payments and e-commerce.

#### CIB

- Continue building connectivity for global clients in strategic corridors
- Expand our reach and product offering through our regional model
- Prioritise environmental, social and governance (ESG) capabilities.

#### Material matters

- Keeping economic momentum
- State-to-sector interconnectedness
- Managing societal change
- Climate change and the green transition.

#### Capitals

### The primary partner for our clients

**We aim to be the primary partner for our clients by truly understanding and satisfying their day-to-day needs, creating and delivering value across the entire client relationship, and building a brand our people and clients can be proud of. To do this, we will:**

#### RBB

- Provide distinctive transactional banking and payments as primary anchor, ensuring reliability and availability of our channels
- Ensure integrated product design and customer experience delivery to eliminate silo-driven customer pain points, enable holistic pricing, and optimise benefits and rewards
- Drive relevance beyond banking and offer a seamless end-to-end experience across the lifecycle
- Build and utilise a platform, as well as data and analytics to continuously evolve and innovate our products and processes utilising deep insights regarding customers.

#### CIB

- Deliver a seamless transactional experience and an integrated product offering through proprietary channels or strategic partnerships, enabling cross-product and geographic opportunities
- Drive digital adoption, migration, self-service and improvements in client experience across our product propositions
- Leverage distinctive sector expertise to tailor products and platforms
- Develop deep insights on new and existing clients leveraging advanced analytics and customer relationship capabilities.

#### Material matters

- Keeping economic momentum
- Managing societal change
- Digital inclusivity.

#### Capitals

## A digitally powered business

**We aim to be a digitally powered business with superior digital experience, use data as a strategic asset, continuously evolve our tech architecture, improve trust and security and function as a nimble organisation. To this end, we will:**

### RBB and CIB

- Create seamless end-to-end client and colleague journeys
- Drive digital adoption and sales across our client base
- Leverage digital to launch new transformational products - unlocking new business models and revenue streams.

### Group

- Scale our use of data science and advanced analytics by further maturing skills, capabilities and data fluency
- Drive adoption and coverage of cybersecurity tools in business while ensuring a superior client experience
- Transform our policies, procedures and procurement practices to enable a nimbler organisation.

### Material matters

- Keeping economic momentum
- State-to-sector interconnectedness
- Managing societal change
- Regulatory change
- Digital inclusivity.

### Capitals

## A winning, talented and diverse team

**We will build a winning team by developing a competitive advantage through our culture, attracting and being a home for Africa's leading talent, organising distributed leadership around our clients and supporting and enabling our people. Specifically, we will:**

- Launch a Group-wide engagement process to transform our culture
- Execute and embed our refreshed talent philosophy, as well as our diversity and inclusion roadmap
- Embed compensation and reward frameworks
- Align the everyday working experience of our colleagues with our intent.

### Material matters

- Managing societal change
- Digital inclusivity.

### Capitals

## An active force for good in everything we do

**We will be an active force for good by managing climate change and biodiversity risks and opportunities, contributing meaningfully to the societies in which we operate, maintaining the highest standards of governance and ethics and actively influencing public policy and regulation. We seek to:**

- Become a major player in sustainable finance transactions
- Set ambitious net-zero carbon targets
- Scale our Corporate Social Investment (CSI) programmes across our markets
- Grow inclusive financial products and services for the SME sector
- Ensure a resilient and robust control environment that is fit for purpose in delivering our strategy
- Agree on the regulatory and public policy positions where we will actively and visibly contribute.

### Material matters

- Keeping economic momentum
- State-to-sector interconnectedness
- Managing societal change
- Climate change and the green transition
- Regulatory change
- Digital inclusivity.

### Capitals

## Measuring strategic success

By successfully delivering on our strategy, we will drive market-leading growth while efficiently generating returns in line with the market over the medium term:

- **Growth** – Use strong internal capital generation combined with improved primacy to grow ahead of market
- **Returns** – Maintain our returns above cost of equity and target market-related returns of 17-20% over the medium term
- **Efficiency** – Capture value through improved operating efficiency to create scope for investment in digital and new ways of work. Target a cost-to-income ratio in the low 50s
- **Capital** – Sustainably inside the Board target range (11–12.5%). A sustainable pay-out ratio at 50%. Return excess capital (beyond our growth aspiration) to shareholders to optimise returns.

# Strategic scorecard 2021

Some of the metrics used in measuring strategic success and qualitative indicators of success are discussed below:

## A diversified franchise with deliberate, market-leading growth

- Revenue growth
- Non-interest revenue and as a percentage of total income
- Headline earnings
- Return on equity
- Cost-to-income ratio
- Common equity tier 1 (%).

**Overall good progress achieved**

- Delivered highest ever normalised headline earnings and a strong recovery from the prior year's performance.
- Continued to focus on improving our operating leverage through a three-year efficiency programme, which reduced the structural cost base and improved the cost-to-income ratio. This supported our pre-provision profit improvement over the past three years.
- Delivered a return on equity that was above the cost of equity and in line with pre-COVID-19 levels, ahead of expectations.
- Strong returns were delivered while strengthening our capital ratios, with CET1 closing the year above the Board target range.

## The primary partner for our clients
## A digitally powered business

- Customer numbers and primacy
- Product holdings
- Customer experience including net promoter score.

**Overall good progress achieved**

- Progressed customer metrics despite challenges arising from COVID-19 waves and public unrest. SA retail customer numbers were stable year-on-year while ARO customer numbers increased.
- Significantly increased focus on converting customers at the point of acquisition.
- Absa Life was ranked the best in the 2021 SA-csi for Life Insurance Survey.
- Acknowledged by the Regulator, Ombudsman and customers for improving complaints handling. Improved complaints turnaround time from 5.9 days in 2020 to under three days in 2021.
- Placed first in the Solidarity report as the most cost-effective bank in entry-level and inclusive banking and core middle-market.
- Increased digitally active customers with our banking app, the highest-rated by clients on the App Store.
- Continued focus on digital adoption.
- Exceeded CIB new-to-bank client onboarding targets.

## A winning, talented and diverse team

- Colleague experience survey.

**Positive momentum in delivering outcomes that drive a better employee experience from remuneration, wellness and talent perspectives**

- Showed positive year-on-year participation and improving results in our colleague experience survey, notwithstanding the challenging context of the 2021 pay-round and leadership changes.
- Increased level of survey participation indicates increased ownership and accountability by management and buy-in by employees.
- Adopted our new methodology for reporting, tracking and diagnosing culture.
- Initiated plans for an inclusive employee ownership scheme that will create ownership across the organisation.
- Detailed review of race and gender pay parity. Implementation of remuneration adjustments in November 2021 to improve competitiveness.
- Continued heightened utilisation of employee wellness benefits on COVID-19-related matters. These include testing positive, caring for a positive case, medical advice and dealing with loss, death and bereavement.

## An active force for good in everything we do

- Transformation, diversity and inclusion (B-BBEE level)
- Energy decreases and carbon emission savings
- ESG ratings
- Preferential procurement spend (%)
- Sustainability financing
- Management control approach
- Control environment.

**Targets exceeded with strong momentum shown into 2022**

- Achieved a Level 1 B-BBEE rating as a result of increased scores in ownership, management control (specifically in Board membership, top membership and employment equity), increased skills development and preferential procurement spend.
- Improved all seven of our global ESG ratings year-on-year, including CDP climate change and S&P SAM.
- Remained broadly third among SA banks in international ESG ratings but >80th percentile among banks globally.
- Improved management control approach and control environment.
- Exceeded CIB 2021 sustainable financing target.
- Reached an agreement with African Rainbow Energy and Power (AREP) to establish a renewable energy fund that aims to source reliable and cost-effective renewable energy to drive growth and employment.

**Diving deeper:** Outlook, page 79, where we consider how externalities may impact our achievement of our financial ambitions.

# Value trade-off and resource allocation

## Creating and protecting value

As a financial services provider, we play an integral role in the economic life of individuals, businesses and nations by supplying payment services and a safe place to save and invest, providing funds for purchases and growth, managing business and financial risks, offering financial and business support and protecting against risks (insurance). **Our primary capital inputs and outcomes encompass financial capital.**

Of our R1.6 trillion total assets, manufactured capital represents only 0.9%. We maintain physical infrastructure in relation to a physical footprint in our presence countries.

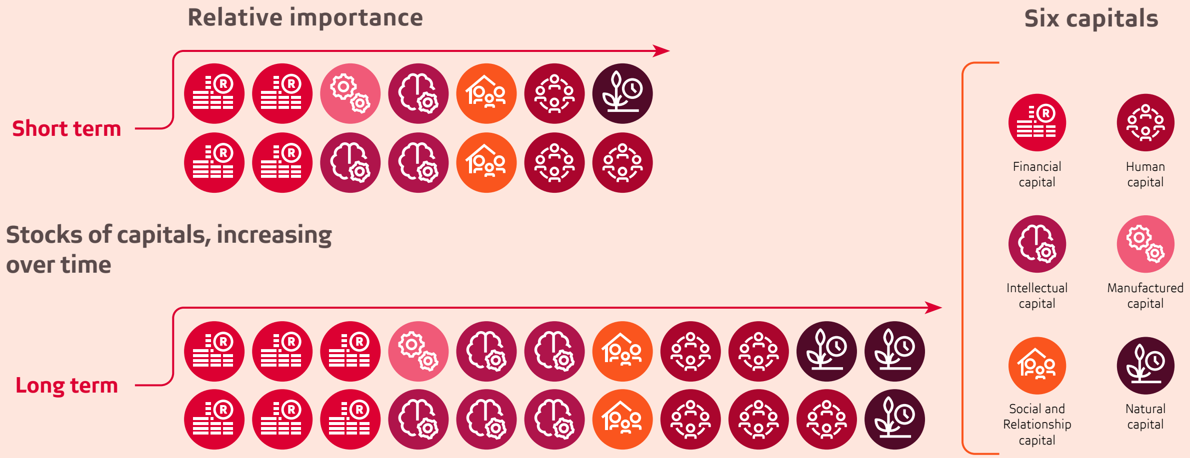
As a business focused on the creation of financial capital, we rely on:

1. Our people's competencies, experiences and ability to understand, develop and implement our organisational strategy **(human capital)**. We balance current skills and expertise with those necessary for future growth and execution of our strategy.
2. Systems, processes, protocols and technological architecture (intellectual capital) provide effective security and are highly stable and efficient.

### Value creation overtime

This is a symbolic representation of

- value created over time as Absa's stocks of capitals increase over what was initially required as inputs
- the relative dependency of our business model on certain capitals more than others
- increases in capitals because of deliberate choices, even if there is no direct benefit to Absa in the short to medium term e.g., we choose to be an active force for good now without direct benefits as we believe our actions will benefit us in the long term.




We make a strategic choice to be the primary partner to our customers and clients, i.e., actively progressing social and relational capital, as the longevity of our business model is reliant on our customers' experiences and the relevance they find in our products and services. In turn, our customers' ongoing support results in operational profits we can distribute to investors, satisfying their expectations of dividends and adequate returns. Our regulators expect Absa to operate responsibly, adding to a stable financial system and requiring the Group to maintain minimum levels of liquidity and capital. Indirectly, a stable financial system is one of the fundamental driving forces in advancing economies in our presence countries, securing possibilities for the communities in each country. We create further indirect social and relationship value by advancing financial inclusion, education and skills development, adding to a just society and nurturing a future customer base. It is a strategic choice to be an active force for good in society.

Due to the nature of our activities, we are not a large consumer of natural capital. Our physical footprint (dependent on manufactured capital) is not carbon-intensive, nor pollutive or dependent on large quantities of natural resources. However, our lending and investment choices significantly impact the creation, preservation, and erosion of natural capital. Firstly, our exposure to the extractive industries on our loan book is less than 0.9%, and through our Oils and Gas and Coal Financing standards, we limit future exposure to exploitive industries. Secondly, we actively pursue opportunities to support the industries that are additive in nature, contributing positively to natural capital, e.g., the agricultural and tourism industries. Lastly, we actively promote environmental sustainability by developing new products and services to support a green economy as an active force for good for the planet.

Led by our purpose of bringing possibilities to life, we make strategic choices to drive areas of value creation that would typically not be part of the business model fundamentals of a standard financial services organisation.

## Balancing choice and necessity, making tough decisions

Below we discuss certain key choices, decisions and considerations made during 2021 in balancing short term performance with long term value creation, making choices that involve conflicting stakeholder or capital allocation needs and bravely venturing into material transactions with sustainable value creation in mind.

## Leadership changes

Absa experienced leadership setbacks after the passing of Peter Matlare and the departure of the former Group Chief Executive Officer, Daniel Mminele. We acknowledge that the length of time taken to finalise executive appointments may negatively impact market perceptions. The Board was committed, however, to run a robust recruitment process with both internal and external candidates under consideration. Ultimately, we require both well-defined strategic thinking and the right leadership in order to take Absa forward. We are pleased to announce the appointment of Arrie Rautenbach as Group Chief Executive Officer on 29 March 2022. The Board recognises the Executive Committee's invaluable experience (combined tenure of 145 years, as at 28 March 2022) and the positive 2021 performance results delivered by the team. Succession planning for the Board and senior management team are amongst the top priorities.

**Material matters**
- Keeping economic momentum

**Capitals**
- Pervasive across capitals

**Strategic themes**
- Pervasive across strategic themes

## Revised ARO operating model

The change to the ARO operating model does not affect the country banks' human capital, boards or regulatory responsibilities but creates more robust ties between the leading product houses and the ARO frontline teams. The Board and management had to weigh the benefits of this decision against the potential impact of an organisational restructure amid the pandemic when ways of working were already disrupted. Therefore, disruptions had to be limited. We continue to evolve to optimise the operating model for our ARO business.

**Material matters**
- Keeping economic momentum
- Regulatory change
- Digital inclusivity

**Capitals**

**Strategic themes**
- Pervasive across strategic themes

## Maintaining a posture of caution given the uncertain operating environment

In the light of the continuing waves of COVID-19 and persistent economic hardship, the Board and management team had to deliberate on our position of re-instituting a dividend while operating in an uncertain environment. Within this context, we recognise the need to maintain a sufficient buffer against future defaults and maintain healthy liquidity and capital levels with sufficient coverage. In contrast, the providers of financial capital favour a steady dividend pay-out ratio, especially during economic downturn. With a view to balancing regulators' and investors' needs, we declared an interim dividend and a final year-end dividend at lower pay-out ratios while remaining cautious by adjusting Board target ranges to promote the rebuilding of capitalisation levels.

**Material matters**
- Keeping economic momentum

**Capitals**

**Strategic themes**
- A diversified franchise with deliberate, market-leading growth

## Closure of the Absa Money Market Fund (AMMF) and the related customer transition

We regularly assess all our products to ensure they are aligned with our customers' needs and expectations. In engaging an AMMF client population, we determined that the majority of the retail client population sampled believed that the AMMF capital and its associated returns are guaranteed by Absa Bank. However, the AMMF is not a bank account. Instead, it is a collective investment scheme product (also known as a unit trust), and therefore capital and returns are not guaranteed. In line with our aims of treating customers fairly and providing them with products best suited to their needs, we closed the AMMF and provided clients with a selection of different Absa products at risk of potentially losing some clients. We successfully migrated the majority of clients onto Absa investment products and the remaining investors transferred to a newly created fund.

**Material matters**
- Keeping economic momentum
- Managing societal change
- Regulatory change

**Capitals**

**Strategic themes**
- A diversified franchise with deliberate, market-leading growth
- The primary partner for our clients
- An active force for good in everything we do

## The investment cluster transaction

Maintaining a healthy appetite for corporate transactions is necessary to drive our strategic aspirations forward, especially when economic activity is subdued. Often during uncertain times, business focus is shifted from growth to recovery or prevention, foregoing potential reward in attempts to minimise risk. The decision to forego capital in the short term to deliver increased financial capital in the long term had to be carefully deliberated. We decided to exchange our investment management business, Absa Investments, for a stake of up to 17.5% in Sanlam Investment Holdings. This transaction is in progress, subject to the necessary regulatory approvals. For Absa, the transaction delivers improved scale, capabilities, customer propositions, and transformation, all of which we view as essential to achieving growth in the investment management sector. This merger will create value for all stakeholders, including the investment management employees, who will have the opportunity to work for a larger, multi-capability investment business.

**Material matters**

- Keeping economic momentum

**Capitals**

**Strategic themes**

- A diversified franchise with deliberate, market-leading growth
- The primary partner for our clients

## Broad-based black economic empowerment (B-BBEE) transaction

In 2017, Barclays PLC transferred 1.5% of its shareholding in Absa Group, then known as Barclays Africa Group Limited, to an interim structure (the Absa Empowerment Trust) created to facilitate a new B-BBEE transaction for Absa. Since then, the Trust has utilised dividends from Absa to purchase additional shares, increasing its stake in Absa to approximately 1.9%.

Work on developing a new Absa B-BBEE scheme was put on hold in 2020, as market conditions were not conducive during the pandemic and economic downturn. In 2021, when relooking at the scheme, we carefully weighed the needs of both society and our shareholders, as the transaction will ultimately be dilutive for current shareholders. Being cautiously optimistic about our resilience to the operating context, the Board and management deliberated and decided to re-ignite the implementation of a suitable transaction. Although work is still ongoing, it is currently envisaged that the scheme will be broad-based, will include both third-party investors and employees, and that it could constitute up to 8% of Absa's share capital, inclusive of the Trust shares.

The transaction will be subject to shareholder and other approvals, with implementation expected in 2022.

**Material matters**

- Keeping economic momentum
- Managing societal change

**Capitals**

**Strategic themes**

- A diversified franchise with deliberate, market-leading growth
- The primary partner for our clients
- A winning, talented and diverse team
- An active force for good in everything we do

## Resource allocation

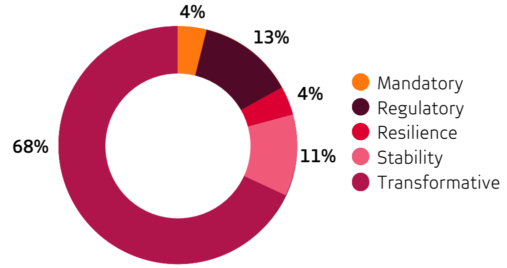
Reinvestment is necessary to keep from strategic stagnation, even in constrained economic conditions. The trade-off between short-term capital allocation and long-term gain requires Absa not only to hold the minimum capital required by regulators but also to provide for an approximate 10% reinvestment into strategic initiatives. These are projects aimed explicitly at driving Absa's strategic agenda forward. In 2021, we retained R4.3 billion for investment into our strategic book of work and plan on spending R5.3 billion in 2022.

Annually, the Board and management team interrogate the book of work to ensure that projects earmarked for investment align with our strategic ambitions and changes in our operating context.

Projects are categorised based on whether they are mandatory, designed to ensure business resilience or improved stability, are proactive to regulatory change or could be deemed transformative, i.e., resulting in a definitive step-change in furthering a strategic ambition.

The outcome of the deliberations indicates that the portfolio of projects delivers a high proportion of transformative change as needed and is focused on digital and payment-related activities, indicating thematic alignment with the Board-approved strategy.

**Future capital allocation**




Diving deeper: Material matters, page 30, Human capital, page 50, Intellectual and manufactured capital, page 57.

**Material matters**

- Keeping economic momentum
- Managing societal change
- Regulatory change
- Digital inclusivity

**Capitals**

**Strategic themes**

- A digitally powered business
- A winning, talented and diverse team

# Delivering on possibilities and creating value



Punki Modise
Interim Group Financial Director
as at 28 March 2022.

***"We have come through the crisis in a strong position, having focused on managing operating leverage, building balance sheet resilience and preserving capital."***

**2021 Financial results webcast**

# Interim Group Financial Director's message

## Financial capital

**Financial capital** refers to the pool of funds available to the bank to enable our business activities. This capital can be obtained through various means, including financing, equity, generated through operations and investments. We seek to use our financial stocks of value to enhance the outcomes on all our capitals to support our ability to create value over the short, medium and long term while preventing value erosion.

### Related material matters


**33** Maintaining economic momentum
**36** Climate change and the green transition
**37** Regulatory change
**38** Digital inclusivity


### Strategic response


**40** A diversified franchise with deliberate, market-leading growth
**40** The primary partner for our clients
**41** A digitally powered business
**41** A winning, talented and diverse team
**41** An active force for good in everything we do


## Overview of 2021

### Strategic performance

**6%**
**Revenue growth**
(2020: 2%)
(2019: 6%)

**R85.9bn**
**Revenue**
(2020: R81.4bn)
(2019: R80.0bn)

**55.2%**
**Cost-to-income**
(2020: 56%)
(2019: 58%)

### Value for shareholders

**R18.6bn**
**Headline earnings**
(2020: R8.0bn)
(2019: R16.3bn)

**15.8%**
**Return on equity**
(2020: 7.2%)
(2019: 15.8%)

**785 cents**
**Total dividend per ordinary share**
(2020: 0 cents)
(2019: 1 125 cents)

### Strong deposits and loans

**R1 134bn**
**Gross loans and advances**
(2020: R 1 058bn)
(2019: R1 006bn)

**R1 174bn**
**Deposits**
(2020: R1 048bn)
(2019: R944bn)

### Normalising risk profile

**5.43%**
**Stage 3 loans ratio on gross loans and advances**
(2020: 6.28%)
(2019: 4.67%)

**0.77%**
**Credit loss ratio**
(2020: 1.92%)
(2019: 0.80%)

### Strong capital and liquidity

**12.8%**
**Common equity tier 1 ratio**[1]
(2020: 11.2%)
(2019: 12.1%)

**116.8%**
**Liquidity coverage ratio**
(2020: 120.6%)
(2019: 134.4%)

[1] IFRS CET 1

This commentary refers to normalised results throughout, which better reflect our underlying performance because it adjusts for the consequences of separating from Barclays.

## Summarised balance sheet

| | 2021 R million | 2021 % change | 2020 R million | 2020 % change | 2019 R million |
|---|---|---|---|---|---|
| **Total assets** | 1 637 294 | 7 | 1 525 964 | 9 | 1 394 494 |
| *Of which* Net loans and advances[1] | 1 092 257 | 8 | 1 014 517 | 4 | 976 723 |
| **Total equity** | 143 506 | 13 | 127 546 | 5 | 121 840 |
| **Total liabilities** | 1 493 788 | 7 | 1 398 418 | 10 | 1 272 654 |
| *Of which* Deposits due[1] | 1 173 766 | 12 | 1 048 000 | 11 | 943 716 |
| **Total equity and liabilities** | 1 637 294 | 7 | 1 525 964 | 9 | 1 394 494 |

[1] These numbers were corrected for a prior period error. Refer note 17 of the financial results booklet.

## Moderate Group customer loan growth

Average interest-bearing assets grew 2%, given modest growth in average customer loans. At spot positions, RBB customer loans rose 8% to R618 billion, and CIB increased 7% to R398 billion. Our largest book, Retail SA, increased 9% to R429 billion. Our retail market share increased slightly to over 22%, given targeted growth in our secured books, with Home Loans up 9% and Vehicle and Asset Finance 10% higher. Relationship Banking grew 3%, given muted demand for commercial asset finance and commercial property finance. RBB ARO's loans grew 15%, or 8% in CCY, primarily due to growth in personal lending.

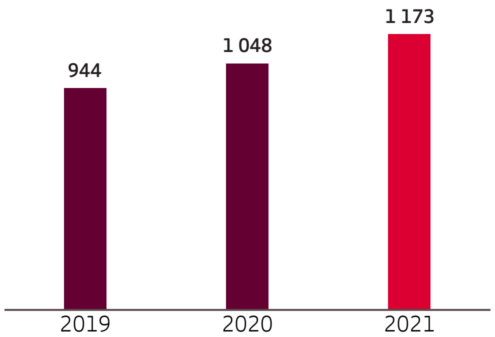
Total CIB customer loans increased 7% to R398 billion, given improved second-half production, even though most growth was due to 39% higher reverse repurchase agreements. Excluding these, CIB's loans grew 3%. CIB SA grew loans 6% to R338 billion. Given reduced demand for short-term funding, its average book decreased marginally. CIB ARO customer loans rose by 14%, or 6% in CCY, with solid growth in trade loans.

## Solid deposit growth across the board

Growing core deposits remains a priority and is a good indicator of the health of our franchise. Strong deposit growth has produced positive balance sheet JAWS over the past three years, with growth exceeding customer loans. Customer deposits increased to 82.5% of our total funding, reducing the proportion of wholesale funding. Managing our liquidity has been a priority over the past two years, and our sources of liquidity remain strong – growing 16% to over R300 billion. Our liquidity coverage ratio of 117% and a net stable funding ratio of 116% are both comfortably above regulatory requirements.

Total customer deposits grew 12%, or 10% in CCY, with average deposits 12% higher. SA deposits increased 10% to R880 billion. Within this, Retail rose 12% to R280 billion, improving its market share slightly to 22%. Relationship Banking grew 13%, a solid performance, and CIB SA rose by 11%. Deposit growth was assisted by the closure of the Money Market Fund in July 2021, with a significant portion of customers electing to migrate to Absa investment products. African region deposits grew 23% to R195 billion, in part due to the weaker spot rand, as it increased 12% in CCY.

**Total deposits** (R billion)




## Strong capital levels

We remain well capitalised, with our CET1 ratio increasing to 12.8% from 11.2%, given strong capital generation and lower risk-weighted assets. This is above the top end of our Board target range of 11 to 12.5% and comfortably exceeds regulatory requirements. Risk-weighted assets increased 2% to R932 billion, with the most significant component, credit risk, up 1%. We remain capital generative, with profits adding 2% to the CET1 ratio over the year. The strong CET1 ratio enabled the Group to resume dividend payments, with an effective 36% pay-out ratio for the year.

## Summarised normalised income statement

| | 2021 R million | 2021 % change | 2020 R million | 2020 % change | 2019 R million |
|---|---|---|---|---|---|
| Net interest income | 53 297 | 9 | 48 790 | 5 | 46 306 |
| Non-interest income | 32 576 | (0) | 32 592 | (3) | 33 655 |
| **Total revenue** | 85 873 | 6 | 81 382 | 2 | 79 961 |
| Operating expenses | (47 412) | 4 | (45 576) | (2) | (46 357) |
| **Pre-provision profit** | 38 461 | 7 | 35 806 | 6 | 33 604 |
| Credit losses | (8 499) | (59) | (20 569) | >100 | (7 816) |
| Other impairments and indirect tax | (2 247) | (0) | (2 238) | 18 | (1 893) |
| Associates and joint ventures | 132 | < (100) | (36) | <(100) | 221 |
| **Profit before taxation** | 27 847 | >100 | 12 963 | (46) | 24 116 |
| Taxation | (7 604) | >100 | (3 606) | (43) | (6 310) |
| **Profit after taxation** | 20 243 | >100 | 9 357 | (47) | 17 806 |
| Attributable earnings | 18 565 | >100 | 7 912 | (51) | 16 003 |
| Non-controlling interest | 1 678 | (16) | 1 445 | (20) | 1 803 |
| **Headline earnings** | 18 591 | >100 | 7 965 | (51) | 16 265 |

## Significantly improved credit charge drove earnings

Our strong earnings growth was largely driven by far lower credit impairments, although solid net interest income growth also contributed.

Given the tough operating environment, revenue growth of 6%, or 8% in constant currency (CCY), was solid. Net interest income grew 9%, or a substantial 13% in CCY, primarily due to margin expansion. Non-interest income was flat, or up 2% in CCY. Operating expenses remain well controlled, growing 4%, mainly due to higher bonuses given our improved performance. Excluding bonuses, Group costs increased 1%, or 3% in CCY. These combined to produce 7% higher pre-provision profits, or 10% in CCY.

Our credit impairments fell 59% or R12 billion, as our credit loss ratio improved to 77 basis points (bps), at the bottom end of our through-the-cycle target range, following last year's significant charge.

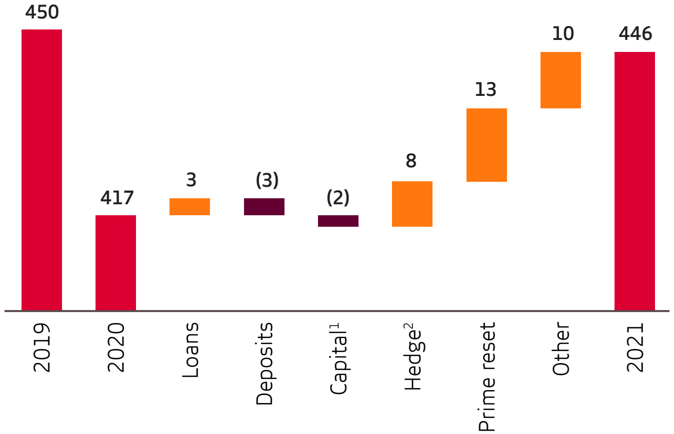
These drivers combined to produce normalised headline earnings of R18.6 billion, up 133% relative to last year. Our RoE improved to 15.8%, back to pre-COVID-19 levels in 2019.

## Net interest margin recovered strongly

In 2020, our net interest margin fell 33bps, predominantly due to significant policy rate cuts that had a negative endowment impact. However, with rates essentially flat in South Africa during 2021, the substantial negative prime reset did not recur, and our margin widened by 29bps to 4.46%.

Unpacking the drivers, our lending margin continues to improve, again due to improved client pricing in Home Loans, Vehicle and Asset Finance and CIB SA. Our deposit margin decreased, reflecting lower rates and competitive pricing. This was partly offset by reduced reliance on wholesale funding, which has a positive composition impact.

**Change in net interest margin[1] (basis points)**




[1] Average interest-bearing assets.
[2] Interest rate risk management.

With the average prime rate in South Africa down 82bps, there was a drag on the endowment income on lazy deposits and our equity. Our structural hedge released R3.2 billion to the income statement, 8bps more than in 2020. The net impact of lower endowment on equity, deposits and the structural hedge was a 4bps drag. The cash flow hedging reserve reduced to R800 million after tax from R4.3 billion. The non-recurrence of interest rate related losses from rate cuts of 300bps in the prior year improved our margin by 13bps, and higher yields on the liquid asset portfolio were also positive.

## Insurance reduced non-interest income

Growing non-interest income is a priority. However, Life Insurance was a significant drag, offsetting the improving growth in our banking non-interest income, particularly in Global Markets.

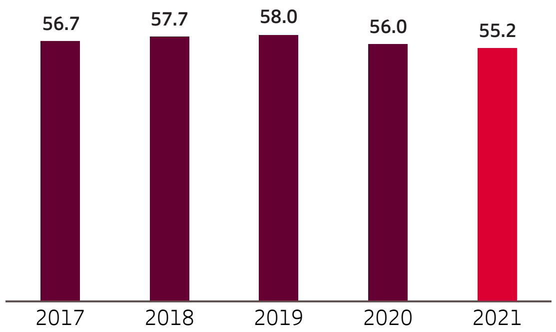
Total non-interest income was flat, growing only 2% in CCY, given an improved second-half performance. The most significant component, net fee and commission income, grew 2%, or 4% in CCY. Within this, transactional income increased 1%, with muted growth in RBB SA. Growth of 12% in CIB's fee income was pleasing. Net trading excluding hedge ineffectiveness rose by 17%, given a strong Global Markets performance. Significantly higher Life Insurance claims and further reserving for the third and fourth waves of COVID-19 impacted performance.

RBB's non-interest income decreased 4%, mainly due to reduced Insurance income. Excluding this, non-interest income was flat, reflecting customer-centric pricing actions, the shift to digital from traditional channels and subdued economic activity, given COVID-19 lockdowns and July's unrest in SA. CIB's non-interest revenue grew 22%, or 28% in CCY – an excellent performance driven by Global Markets and non-recurring fair value losses in the base.

## Operating expenses remain well managed

Due to our improved performance, operating expenses increased 4%, or 7% in CCY, primarily due to the sizeable increase in bonuses off an extremely low base last year. Excluding bonuses, costs were up 1%, or 3% in CCY. Total staff costs grew 4%, or 7% in CCY, remaining the largest component at 55% of Group costs. However, salaries decreased 1%, as headcount reduced by 4% or almost 1500 employees.
We continue to invest in the bank's future, with total IT spend increasing 13% and constituting 24% of Group costs. Marketing increased 16% due to a higher campaign spend. Property costs were flat, given our property optimisation strategy. It is pleasing that our cost-to-income ratio has improved over the past two years.

**Cost-to-income ratio (%)**




## Credit impairments improved materially

Our credit impairments dropped significantly from the exceptionally high base in 2020, improving our credit loss ratio from 192bps to 77bps, at the bottom end of our expected through-the-cycle target range of 75 to 100bps. This reduction was largely due to the non-recurrence of the R5.4 billion macroeconomic variable (MEV) provision we raised in 2020, a net R1.2 billion MEV release this year, plus improved collections and model enhancements in RBB. Although single-name impairments decreased 13% to R2.4 billion, these remain elevated.

Our Group non-performing loans, or stage 3 loans, declined to 5.4% from 6.3%. The improvement was due to aligning our definition of default with our peer group, legal balance sales, write-offs and loan growth, partially offset by higher non-performing loans following the expiry of payment relief. After our significant build in total loan coverage in 2020, it decreased marginally last year. Nonetheless, it remains comparatively high at 4.1%, which we believe is appropriate.

RBB and CIB's credit impairments dropped materially, by 54% and 78%, respectively, resulting in a 59% lower Group charge. RBB benefited from better underlying performance, model enhancements in the South African retail portfolios, and improved collections. CIB reflected lower single-name charges, a partial release of its macroeconomic overlays, and an enhanced portfolio construct in the performing book.

## Strong divisional earnings growth

**RBB's** earnings rebounded strongly off a particularly low base, more than doubling to R10.2 billion. Its growth was largely due to 54% lower credit impairments, as its pre-provision profits decreased 3%, impacted by Insurance's significantly higher claims and COVID-19 provisions. Excluding Insurance, pre-provision profits grew 2% and were substantially stronger in the second half, increasing 10% year-on-year. RBB cut fees by R600 million to alleviate strain on customers. Excluding this and total Insurance, its revenue grew 3%, and its pre-provision profit rose 5%.

RBB's franchises all rebounded significantly, with the exception of Insurance. Home Loans produced an excellent performance, with record profits of R2.5 billion. Strong 12% net interest income growth was well ahead of 3% cost growth, generating 15% higher pre-provision profits. Its credit impairments improved considerably, primarily due to model refinements.

Vehicle and Asset Finance continued to generate strong pre-provision profit growth, up 18% on the back of 16% higher revenue on 10% book growth and improved margins. Its credit impairments also dropped 53%. These combined to increase Vehicle and Asset Finance's headline earnings by R1.5 billion year-on-year from 2021's substantial loss.

Everyday Banking earnings grew 63% to almost R4 billion, largely due to substantially lower credit impairments in Card and Personal Loans, which both rebounded from losses in 2020. The business faced several revenue headwinds, including moderate first half loan production and a low interest rate environment compressing margins across the balance sheet. Continued lockdowns in 2021, together with fee reductions and the shift to digital channels, weighed on fee income. These revenue headwinds resulted in lower pre-provision profit.

SA Insurance earnings dropped by 93% to R68 million, given significantly higher mortality claims and increased reserves in Absa Life due to COVID-19. Life Insurance lost R174 million as the second and third waves of COVID-19 were worse than expected, and it increased reserves to R423 million for the anticipated impact of the fourth and potential fifth waves. Life's net premiums grew 7% to R4 billion, with growth in funeral and Instant Life resulting from integration into the bank. Short-term Insurance earnings decreased 35% to R242 million, as motor vehicle accident claims normalised off a low base, and investment income decreased given lower interest rates.

Relationship Banking's earnings increased 49% to R3.5 billion due to 57% lower credit impairments and 5% higher pre-provision profits. Strong deposit growth and 14% higher card acquiring volumes supported 4% revenue growth, offsetting customer-centric fee reductions and lower cheque income.

Lastly, RBB ARO's earnings swung to a R462 million profit from a R227 million loss due to a 49% reduction in credit impairments and 8% higher pre-provision profits. Within this, the banking operations rebounded strongly, with 15% pre-provision profit growth, while Insurance ARO was loss-making, given significantly higher COVID-19 claims and reserving.

**CIB's** earnings grew 54% to R7.8 billion, or 64% in CCY. Its pre-provision profits rose 10%, or 16% in CCY, given strong non-interest income growth, and its credit impairments fell 78% off a high base.

Within this, Corporate earnings grew 69% to R2.3 billion, or 88% in CCY. Credit impairments were the main driver, declining significantly off a high base to a slight reversal. Its pre-provision profits were flat, although this was 7% higher in CCY. Corporate's revenue grew 5%, or 10% in CCY, with South Africa up 9% and ARO down 1%, albeit up 10% in CCY. Corporate SA's growth reflects substantial increases in deposits and trade finance, partially offset by subdued demand for short-term funding. Costs grew 8%, or 11% in CCY, largely due to higher bonus provisions.

Investment Bank earnings grew 48%, or 55% in CCY, to R5.5 billion. This reflects the combination of 15% pre-provision profit growth and 61% lower credit impairments. Its revenue grew 14%, or 18% in CCY, with solid growth in all business units. As mentioned, Markets revenue rose 14%, or 20% in CCY, and Commercial Property Finance grew 13%. South Africa's revenue increased 22%, while ARO declined 1%, although it grew 11% in CCY. Costs rose 13% due to higher bonus provisions and incremental run costs. However, its cost-to-income ratio remains low at 39%.

Using a geographic lens, CIB South Africa's earnings grew 62% to R5.1 billion, given 66% lower credit impairments and 18% higher pre-provision profits, on the back of 17% revenue growth. Its return on regulatory capital improved to 19%.

CIB ARO earnings grew 39% to R2.6 billion. The strong rand weighed on its performance because in CCY, CIB ARO's earnings rose 67%, and revenue was 11% higher, rather than down 1%. Its credit impairments decreased 94%, resulting in a low credit loss ratio of 12bps. CIB ARO's return on regulatory capital remains high at 30%.

The R2 billion improvement in **Head office, Treasury and other** was due to non-recurrence of the sizeable prime reset losses in the base, higher yields on the liquid asset portfolio and lower funding costs.

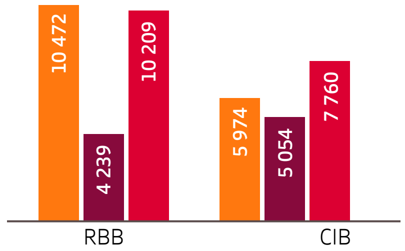
## Conclusion

In 2021, we shifted our focus from preserving capital and liquidity and protecting the balance sheet to growth. Our capital levels and liquidity strengthened further, which, when combined with strong loan coverage, positions our balance sheet well, demonstrating resilience and providing a solid base to fund future growth.

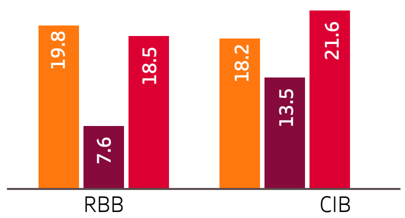
I wish to express my gratitude to the Board and my fellow executives for their insight, guidance and direction. I would also like to extend a particular word of thanks to Jason for his mentorship and wise counsel during my tenure as Interim Group Financial Director. Finally, to the individuals and teams who have continued to go above and beyond, thank you.

**Diving deeper:** Outlook, page 79, provides our 2022 guidance.

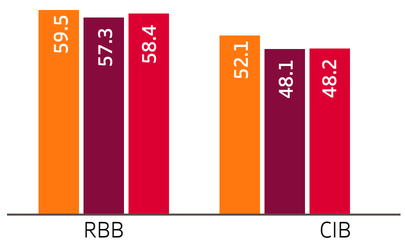
**Headline earnings (R million)**



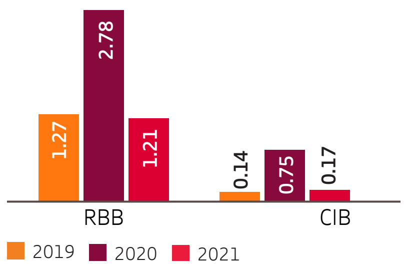

**Return on regulatory capital (%)**




**Cost-to-income (%)**




**Credit loss ratio (%)**



# Human capital

**Human capital** refers to the competencies and capabilities of our people and the contribution they make in aligning with our purpose and strategic direction. Our people ambition is to create a thriving, future-fit organisation that attracts, develops, and retains the best people through a differentiated workplace experience that brings their possibilities to life and offers competitive compensation.

Our culture journey is one of becoming customer-obsessed, acknowledging the strength of our people, and delivering results sustainably – with an African heartbeat. Under the banner #iamAbsa, our culture transformation initiatives enable organisation-wide shifts toward the desired mindsets and behaviours that bring our purpose to life and nurture a culture of ownership, belonging, participation and inclusion.

## Related material matters

**35** Managing societal change

**38** Digital inclusivity

## Strategic response

**41** A digitally powered business

**41** A winning, talented and diverse team

## Contributing to SDGs

SDG 4 SDG 5 SDG 8 SDG 10

**At Absa, our people are our strength. Through every moment, achievement and conversation, our people are the heartbeat that brings possibility to life.**

## Our human-centric response

During 2021, we continued to focus on enhancing our employee experience by aligning our performance and reward practices, strengthening our leadership and succession pipeline, fostering an inclusive workplace, and preparing our talent for the future world of work.

Maturing organisational capabilities has been a key focus for the People and Culture function. As a critical enabler for our people's performance, we continued our capability building efforts within the function to create a shared understanding and sense of belonging across the People and Culture community.

## Themes for 2021

### Enhancing employee experience:

Transforming our culture and employee experience, measured in terms of:

Employee Experience Index of **64.7%.**

### Caring for employees:

Investing in the wellbeing of employees.

**17 543** employees utilised Absa Employee Assistance programme services.

### An inclusive workplace:

Feedback on our transformation, diversity and inclusion initiatives and employment equity outcomes.

AIC promotion ratio of **85.2%.**

### A future-fit evolution:

Our initiatives are aimed at building a future-fit workforce.

**70% hybrid work environment.**

### Organising ourselves for success:

Key workforce outcomes and our intentions to design future-fit structures.

**Flexible structures.**

### Focus on talent, leadership, and succession:

A report on our initiatives and key metrics.

**95.4% high** performer retention rate.

### Investing in development:

Investments in growth and learning to develop critical and scarce skills for the future.

**R559 million** skills development spend.

### Enabling performance through reward:

Our reporting against key indicators that motivate performance and the retention of our talent.

**R26.1 billion** paid in remuneration, benefits and incentives.

## Enhancing employee experience

We continue to gain momentum on our culture transformation journey by fostering a workplace where everyone finds meaning and purpose and feels valued for their unique contribution to the organisation. Central to our efforts is ensuring that we continuously listen and get feedback through various employee engagement activities. This allows us to develop a shared understanding of our key challenges and, in turn, serves our people with a genuine intention to bring about real change that ultimately makes a difference.

We conducted our annual Employee Experience Survey in October 2021 and provided another opportunity for our employees to make their voices heard. We were delighted to achieve an 80% participation rate across the Group, surpassing our initial target of 73% achieved in 2020. This outstanding participation not only provided a statistically robust and representative sample but is a proof point for the increased support of our employees for our culture journey.

The survey also provides us with our Employee Experience Index score – the single number we use to track and monitor the transformation of our employee experience and our culture year-on-year. This number provides a comparable way of accounting for the employee experience across all business areas and serves as the employee measure score in the Group Balanced Scorecard.

While we are still at an early stage of our culture maturity, it is important to acknowledge the significance of implementing and embedding a fit-for-purpose employee measure process in the organisation. Our transparent annual process has increased visibility of culture conversations and clear direction on our leaders' and teams' roles and responsibilities in taking accountability as co-owners of our culture.

The Employee Experience Index score improved from 64.1% in 2020 to 64.7% in 2021. Other outcomes included:

- 63.4% of employees felt either delighted or satisfied with their experience of working at Absa (employee sentiment)
- 7.11/10 employees indicate that they still feel satisfied working at Absa (2020: 6.96)
- In terms of advocacy, our employee net promoter score (eNPS) is 12.8% (2020: 13%).

## Caring for employees

Our COVID-19 response focused on employee safety, health, and wellbeing. As at 28 February 2022, 9 894 employees have contracted COVID-19, and 9 745 have recovered. We regrettably report that 77 employees have lost their lives due to COVID-19-related complications.

In February 2021, we rolled out a Knowledge, Attitude and Practice survey to gain insights on how our employees perceived COVID-19 vaccines. The survey revealed that:

- 47% will, or probably will, take the vaccine
- 32% are undecided about whether they will take the vaccine
- 21% will probably not, or not take the vaccine.

The outputs from the survey informed a 'Let's get safe together' campaign to actively drive vaccinations across the Group in line with our policy to support vaccination programmes in all our markets. This included webinars where leading epidemiologists and virologists discussed vaccines.

Through BASA, Absa participated in the formation of the banking sector workplace vaccination site in Sandton, Gauteng.

Based on 15 December 2021 data from Bankmed, 11 141 employees received at least a single dose of the COVID-19 vaccine – which represents 46% of Absa Bankmed principal members, 7 727 of which were fully vaccinated (69% of the 11 141). To further validate reported numbers and inform future vaccination strategies, we implemented a mandatory vaccination declaration policy whereby all employees have to capture their vaccination status on Workday by 31 March 2022.

We focus our wellness offering on promoting physical and mental wellness and supporting holistic wellbeing. Our new paradigm of care views wellness as a lifelong social contract across six dimensions: occupational, physical, spiritual, financial, mental, emotional and social wellbeing.

17 543 employees accessed the Absa Employee Assistance programme services in 2021, representing a 58.5% utilisation rate (2020: 17 690; 58.8%). The top three reasons were mental health issues, relationship challenges and financial advice.

Our comprehensive mental health programme encompasses mindfulness, exercise, and daily health tips. We continued to drive mental health awareness in 2021, hosting weekly mindfulness sessions and monthly mindfulness masterclasses. In addition, we launched a mental health app, which enabled employees to access resources and tools to facilitate the proactive management of their mental health journeys.

## An inclusive workplace

At Absa, we subscribe to the philosophy that our transformation, diversity and inclusion (TD&I) objectives will yield sustainable results through meaningful relationships reflective of our diverse cultures and footprint. We have primarily directed our efforts at empowering our people managers with the tools needed to build and sustain these diverse relationships and model inclusive workplace practices.

Despite the challenges experienced through COVID-19, we continued to use our financial muscle to contribute towards the economic recovery of the countries in which we operate, as well as promote inclusive growth through our TD&I programmes. Our commitment is apparent in our re-anchored Group strategy, which makes explicit our goal to be a leader in driving diversity and inclusion. Our TD&I strategy continues to contribute towards a diverse workforce and inclusive environment through five key areas, that is, gender diversity; racial and ethnic diversity; people with disabilities; generational diversity; and the lesbian, gay, bisexual, and transgender (LGBTQIA+) community (in countries where the agenda is legal).

Our Board and leadership are at the forefront of this agenda. The Group Board increased its female representation to 40% (2020: 31%), while black female representation increased to 27% (2020: 18.8%). Executive director black female representation increased to 50% (2020: 0%).

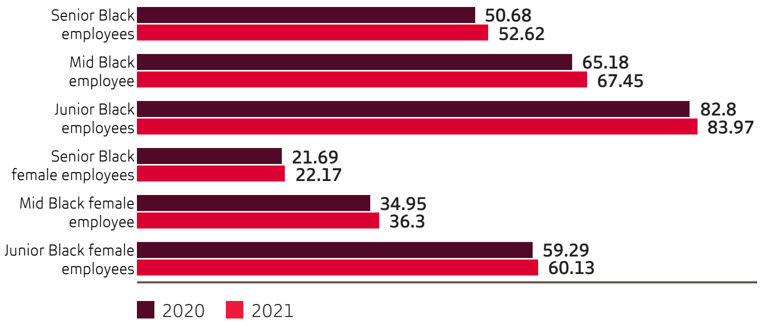
**Diving deeper:** Board composition, page 85.

## Racial diversity and inclusion

Our racial diversity and inclusion agenda comprises the enterprise value chain, including the employee lifecycle, supplier diversity and product diversification to meet our customers' needs. Regarding our employee racial diversity and inclusion strategy, racial diversity formed part of all leaders' business performance scorecards to increase black representation across all management levels.

Movements reported across management levels include:

**Management representation** (%)




## Gender diversity and inclusion

In 2020, we launched the Group's Women's Manifesto, which included several focus areas. We made significant progress in the following areas during the year:

**Leadership, accountability, He4She and She4She** – These manifesto topics cover our leaders' role in driving gender diversity and inclusion and how our male employees support female employees as part of the He4Shes initiative and how female employees support each other as they rise as part of the She4Shes initiative. Progress during 2021 included:

- The promotion of gender diversity was included in leadership scorecards, intending to increase female representation across all management levels.
- 45.3% of new hires in 2021 were women (2020: 44.7%), and women constituted 54.3% of all promotions across the Group (2020: 53.8%). This demonstrates the efforts made by leaders to utilise the recruitment and promotion opportunities towards creating a more diverse and inclusive organisation. Further improvements are planned for 2022.
- We focused on visible leadership regarding issues affecting women within the Group and externally through the launch of the Absa Group HeCares/SheCares Mentorship programme, which focuses on leaders showing their care through lifting others as they rise.

Our gender representation closely mirrors the economically active population in presence countries, except in Botswana, Mauritius, Seychelles, South Africa and Uganda where we have proportionately more females in our workforce. Our female economic empowerment is profiled below:

| | Female | Male | Headcount |
|---|---|---|---|
| Botswana | 70% | 30% | 1 096 |
| Ghana | 45% | 55% | 1 145 |
| Kenya | 48% | 52% | 2 188 |
| Mauritius | 51% | 49% | 681 |
| Mozambique | 50% | 50% | 733 |
| Seychelles | 75% | 25% | 252 |
| South Africa | 65% | 35% | 25 908 |
| Tanzania | 48% | 52% | 1 411 |
| Uganda | 59% | 41% | 874 |
| Zambia | 48% | 52% | 784 |

Female Male Headcount as at 31 December 2021

**Equity, equality, career development and progression** – These manifesto topics focus on equity programmes aimed at closing the gender pay gap, as well as creating opportunities for career development and advancement for women within the Group. In 2021, we:

- Undertook a rigorous assessment to identify barriers to TD&I across the employee lifecycle. This included the obstacles to gender diversity and inclusion potentially caused by biases and specific business practices.
- Implemented an integrated TD&I programme to address identified barriers, with strategies for each element of the employee lifecycle, including remuneration, recruitment and promotion, learning and development, performance review and management.
- Delivered several development initiatives as part of the overall Leadership and Management Development programme, with over 13 000 women across the Group benefitting from these initiatives (constituting 70% of Absa's female employees). One such example is the IgniteHer programme, which aims to prepare women for senior positions in the Group. 520 women completed the programme, rating their experience 4.5/5, with an NPS score of 75. In addition, statistical analysis has demonstrated higher levels of promotions for IgniteHer programme delegates (8.8% vs 6.2%), as well as better lateral mobility (15.4% vs 13.5%) and greater retention rates (95.4% vs 93.7%).
- Significantly increased the investment in our young, emerging, and top executive talent through our Accelerated Development programmes, from 39 employees in 2020 to 223 in 2021, of which 47% were women. The programmes were designed and delivered in partnership with Switzerland's award-winning Institute for Management Development Business School.
- Identified barriers to progression for women, including a lack of, or limited, technical skills. To address this issue, in 2021, over 14 000 women (constituting 74% of Absa's female employees) took part in technical, functional and future skills development programmes to help close the gap.

**Treatment, work environment, culture and business processes** – These manifesto topics cover fair treatment for our female employees and stakeholders. To achieve this aim, we seek to create an enabling environment and culture, as well as business processes that facilitate gender diversity and inclusion. In 2021, we:

- Addressed gender-based violence and femicide (GBVF) related issues through our Women's Month programme. This included an assessment conducted during the 16 Days of Activism campaign, which saw over 3000 female employees across the Group provide feedback on whether the Absa environment, policies and practices enable or disable GBVF. Although we already have a Sexual Harassment Policy in place, the assessment results underscored the need for a standalone GBVF Policy, which will be launched in 2022.
- Considered the socio-emotional effects of COVID-19 on our female employees. Women were supported through our wellness programme and given an opportunity to share their stories in a safe environment, together with others experiencing mental health challenges.

## Generational diversity and inclusion

COVID-19 has negatively affected countless people across Africa, with many losing their jobs and businesses. The burden of unemployment is, however, concentrated among youth. An increase in the youth unemployment rate in 2021 to 64% (2020: 54.2%) poses a significant challenge. As a financial institution, we have a responsibility to use our resources to support the socioeconomic stability in the countries in which we operate. Therefore, we invested in 47 learnership and internship programmes to reduce youth unemployment, benefitting 1 652 unemployed youth with on-the-job experience.

## Inclusion of people living with disabilities

The Group continues to seek voluntary declaration of any disability. However, due to cultural sensitivities and the fear of stigmatisation, we are aware that significant under-reporting often occurs. Addressing this matter is a clear priority in our transformation agenda, and we strive to deliver a conducive and supportive work environment. We also continue to provide reasonable accommodation for self-declared employees living with disabilities, constituting 0.84% of our workforce (2020: 0.88%).

## LGBTQIA+ community inclusion

Creating a conducive working environment for our LGBTQIA+ community continues to be an area of focus in countries where the agenda is legally supported. For example, during pride month, we hosted sessions where employees shared their challenges and offered suggestions to enable Absa to become an employer of choice for the LGBTQIA+ community.

> ***"In 2021, we delivered several development initiatives as part of the overall Leadership and Management Development programme, with over 13 000 women across the Group benefitting from these initiatives."***

## Our future-fit evolution

As the organisation reflected on the induced changes to our ways of work because of COVID-19 restrictions, it became clear that our employees' organisational practices and expectations have fundamentally shifted. Through a series of engagements and surveys, we estimate that circa 70% (excluding the branch network; 50% including the branch network) of our workforce would prefer to continue with hybrid working practices.

To ready our organisation for a longer-term transition to a flexible model incorporating site-based, hybrid and remote flexibility, we continue to support employees and the business to optimise productivity, engagement, and inclusiveness in a virtual world. We recognise that the spaces and places that will define the organisations of tomorrow must be flexible, future-ready and fit-for-purpose while retaining a people-centred approach.

Flexible working is the ability to deliver on both strategic and operational outcomes utilising a workforce that spans site-based, hybrid and remote locations by considering the following structures of the workforce:

### Horizon 1

We invest in stabilising the current remote working model, while laying the foundations for flexible working

### Horizon 2

We are accelerating hybrid working with our employees either remotely, onsite or both. We also activate the move towards flexible working

### Horizon 3

We embed and optimise a hybrid working model (with a specific emphasis on culture and collaboration) and mature the framework for flexible working at scale

### Key highlights:

**Connectivity enhancements:** During 2021, we expanded the Group-wide connection rollout of ZScaler, with 82% of the target community now enabled with the new connection tool. Microsoft Teams has been seamlessly integrated and expanded as the primary tool for engagement and virtual collaboration. We are continuously improving our web-browser functionality and integration of a seamless gateway to the organisation for our employees.

**Team and employee support:** We have launched a series of toolkits such as 'Thriving Remotely' and 'Wellbeing' offerings to provide support and guidance to line leaders and employees. To ease access and improve usability, we enhanced our support services to solve the fusion of virtual and on-site working scenarios.

**Safe working environments:** We focus on supporting employees to ensure safe practices in line with lockdown legislation and Occupational Health and Safety standards for virtual and on-site environments. Desk-booking technology is being tested for potential future use in the hybrid practice.

## Organising ourselves for success

Our industry is increasingly more competitive, and pressure remains intense for Absa to be an adaptive financial services group. To meet post-COVID-19 market demands and enable our strategy, we sought to enable the right strategic capabilities and structures to facilitate the design of effective, efficient and flexible structures.

By introducing levels of accountability, we defined the focus of work required from each layer of the organisation, across all components of the operating model, to enable the cascading of decision rights into the right jobs, flexible deployment of people and the enhancement of capabilities across the Group. Our capabilities, job families and top enterprise roles were defined in 2021, informing enhancements of our job architecture to be further developed in 2022. This underpins strategic workforce planning, career development, and identifying critical and future skills required for a future-fit, sustainable organisation.

Across the Group, we increased the focus on alignment between performance objectives and the respective business scorecards and priorities to further enable our strategic ambitions. Furthermore, performance management is positioned as a daily discipline of ensuring employees are focused on relevant business priorities, engaging in regular performance check-in conversations, and sharing feedback that creates a positive shift. In so doing, we strengthened alignment between employee contribution and business priorities to link business performance, individual performance, and ultimately, reward.

To improve the quality of the 2021 performance management process, the People and Culture function collaborated with business to drive a more robust data-led approach and continued to build the capability of employees and managers.

High-level observations of the Absa Group employee performance data indicate 58% of employees being rated in the STRONG+ category (made up of Strong, Very Strong, and Outstanding ratings). This is a 6% increase from the 2020 Absa Group view, aligned with the overall improvement in business performance.

## Focus on talent, leadership and succession

In line with our objective to build talent from within, 70.4% of the 7 081 vacancies filled during the year were internal hires (2020: 74.6% in 2020). Our retention of high-performing employees across all grades decreased to 95.4% from 96.5% in 2020.

Our work to reverse these emerging trends and address our broader leadership and succession challenges focuses on enhancing our organisational talent management capabilities. We are enhancing our talent management practices by refreshing our talent philosophy, framework, processes, investments and culture to ensure a more consistent supply of future-fit, ready leaders and critical talent in the right roles at the right time. Our efforts are designed to ensure that we primarily build our talent from within and are equally able to attract and retain the best external talent now and in the future.

To improve our leadership and succession pipeline, we have taken a deliberate approach to developing our senior leaders individually and collectively, starting with a benchmarked, holistic executive talent assessment process. This assessment process will be followed by enhanced individual and collective leadership development and engagement initiatives, which commenced in 2022. We also amplified our efforts to accelerate the development of next-generation leaders. To this end, we increased the number of top talent on the Absa Leadership Academy Accelerated Development programmes delivered with IMD Business School to 223 (2020: 78).

Our efforts to enhance our employer brand and attract top talent increased in 2021. Progress includes achieving first Place Graduate Employer Banking and Financial Services and Overall Top Graduate Employer in the BP Student Choice Awards (South Africa). We also achieved Top Employer Africa certification in an independent audit of our people practices by the global Top Employer Institute.

### Recognition of exceptional talent:

- First place in the Financial Mail Top Analysts Awards 2021 for Fixed-interest Securities Analysis and top three for Domestic Economic Analysis
- As part of Reputation Poll International's annual ranking, and after extensive research on various executives in the African banking sector, 50 of the most reputable Bank CEOs in Africa were selected. Abena Osei-Poku from Absa Bank Ghana and Rui Barros from Absa Bank Mozambique were included in the ranking
- Absa Bank Ghana was awarded the Honorary Award for Human Resources Excellence in Diversity and Most Promising Organisation in Performance Management for the People-centred Initiative for acquiring a braille machine for an employee who lost his sight in the line of duty
- Absa Group received the Top Employer Africa certification from the Top Employer Institute. The Top Employers Institute is a global authority on recognising excellence in people practices.

## Investing in development

Absa's learning and career development practices ranked above global best practice benchmarks in an independent audit conducted by the Top Employer Institute in 2021. In addition, 87.4% of employees who completed Absa's 2021 Colleague Experience survey reported having access to the learning and development opportunities they needed.

Having successfully transitioned to a 100% virtual-based learning ecosystem in 2020, we focused on developing a future-fit learning plan to enhance our workforce's leadership, management, functional and technical skills in line with strategic business requirements and the evolving world of work.

### Key highlights:

- Our total skills development spend was R559 million, benefitting employees and unemployed learners. In addition, we invested R449 million in the training and development of our employees. (2020: R516 million; R406 million).
- 98% of our permanent employees participated in non-mandatory training programmes, with employees accessing 6 629 available learning programmes (2020: 5 047).
- 58 258 delegates accessed the Absa Leadership Academy training in 2021, compared to 38 854 in 2020. The Absa Leadership Academy continues to drive leadership, management and future-fit skills capability building for the Group while maintaining an overall programme quality rating of 4.5/5 (2020: 4.5) and improving its average net promoter score (NPS) to 73 (2020: 69).
- 32 Gen A graduates undertook a year-long graduate programme, joining 1 313 young professionals who have built their careers with us since 2008.
- We made Udemy available to all Absa employees in December 2020. 17 900 employees were engaged on the platform at year-end, consuming 103 289 hours of content through the year.
- The Absa Digital Campus, launched in July 2020, enables our employees to create a hyper-personalised learning experience, with proficiency improvements of up to 80% recorded. 8 536 employees crafted their personal learning journeys through the Absa Digital Campus (2020: 7 648). We are exploring behavioural economics as a tool to encourage the uptake of self-directed learning.
- R41.4 million in bursaries was disbursed to 1 148 employees, of which 87.8% are black, and 66.2% are women (2020: R25.8 million).
- 984 learnerships were awarded to unemployed learners (2020: 200). 148 of these learnerships were awarded to individuals living with disabilities (2020: 30).
- 669 learners were enrolled in internships across several institutions of higher learning (2020: 300).
- We progressed the development of digital through several initiatives.

**Diving deeper:** Building digital skills, page 61.

***Ensuring that remuneration outcomes are fair across grade, race and gender is a critical lens through which we review remuneration and related decisions.***

## Fair and responsible remuneration

Fair and responsible remuneration is a core remuneration principle and our specific actions reflect a conscious decision to strengthen our position. Ensuring that remuneration outcomes are fair across grade, race and gender is a critical lens through which we review remuneration and related decisions. This ensures active engagement with the issue. Details of actions taken are set out in our Remuneration Report.

**Diving deeper:** Remuneration Report 2021, Remuneration outcomes, page 95.

## Enabling performance through reward

Our efforts have been directed at strategically allocating reward resources, aligned with performance, ensuring appropriately competitive total remuneration. We sought to increase trust in Absa's remuneration frameworks and outcomes with all stakeholders, doing so through improved transparency and enhancing the link between performance and reward outcomes.

We paid R26.1 billion, excluding taxes, in remuneration, benefits and incentives to our employees in 2021 (2020: R25.1 billion). Further details of our 2021 remuneration outcomes are set out in our Remuneration Report.

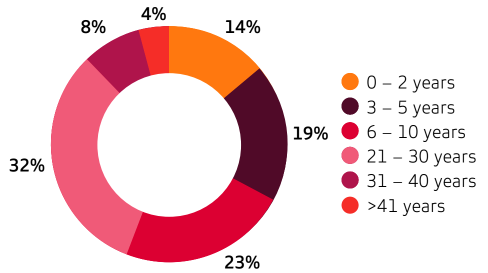
**Diving deeper:** Remuneration Report 2021, Remuneration outcomes, page 95.

## Building a sustainable business

Our total workforce declined to 35 267 (2020: 36 737), primarily attributable to natural attrition and targeted hiring efforts due to the current market conditions. Voluntary attrition increased to 6.4% from 4.9%, and total employee turnover increased to 8.7% from 7.0% versus the industry benchmark of 11%.

Our retention of high-performing employees remained within industry standards at 95.4% (2020: 96.40%) vs the industry standard of 93%.

**Employee tenure profile**




We saw an increase in sick leave utilisation primarily driven by COVID-19-related sick leave taken in 2021. During the past two years, we have seen a decline in employees participating in their annual health screenings due to fear of contracting COVID-19 at healthcare facilities. Additionally, we halted on-site wellness screenings as most of our colleagues continued to work from home. We did, however, continue with health screenings for our branch colleagues.

The increase in the number of annual leave days taken to 43 485 days in 2021 (2020: 37 987 days) is a welcome outcome as it points to more colleagues prioritising their health and wellbeing.

These changes included a reduction in the number of accumulative leave days that may be accrued over time with automatic encashment when the new cap is reached, as well as a change to the way that unused annual leave will be forfeited in future. All new colleagues will be entitled to a standard number of leave days per year with no differentiation by corporate grade and bargaining unit colleagues received an increase to their annual leave entitlement to ensure alignment.

A reduction in employee relations cases (which include misconduct, grievance, and disciplinary cases) has been experienced when compared to the previous two reporting periods (2019/2020) and are below the risk threshold.

- Misconduct as a % of workforce – 4.47% (target <5%)
- Dismissals as a % of misconduct cases – 14.18% (target <25%).

Absa adopts the South African Labour Relations Act (LRA), Act 66 of 1995 definition of "General Misconduct", which is "behaviour that is inconsistent with employee obligations or duties; a breach of company policy or procedure; or generally unacceptable or improper behaviour." Examples include unauthorised absence, theft, and insubordination.

# Intellectual and manufactured capital

**Intellectual capital** refers to our intellectual property and organisational capital, including tacit knowledge, systems, procedures, and protocols. We consider our ability as an organisation to innovate to meet pressing future needs.

Our IT infrastructure is the most material part of our **manufactured capital**, taking our strategic direction and evolving business model into consideration. While our buildings and other manufactured capital provide necessary inputs, the detail of these aspects is not captured here as it is an immaterial portion of our total manufactured capital investment. More information can, however, be found in our ESG report.

## Related material matters

35 Managing societal change
37 Regulatory change
38 Digital inclusivity

## Strategic response

40 A diversified franchise with deliberate, market-leading growth
40 The primary partner for our clients
41 A digitally powered business
41 A winning, talented and diverse team

## Contributing to SDGs

SDG 4 SDG 8 SDG 10

## Technology is a crucial enabler of the Group's strategy

Technology is a primary enabler in building a digitally powered business. It plays an essential role in driving Group priorities to establish a winning, talented and diverse team, as well as being an active force for good in all we do.

Our 2021 digital book of work comprises 307 projects, of which 219 have been mobilised to date. 62% of the initiatives are aimed at sustaining innovation and meeting regulatory and mandatory obligations, including initiatives to build and sustain modern tech architecture (27%), distribution first channels (19%) and strategic capabilities (16%). R3.4 billion was spent on these projects, with planned benefits amounting to R2.5 billion comprising R1.9 billion in direct and R572 million in indirect benefits. Critical non-financial benefits derived from our digital projects included advanced automation to improve the quality of customer interactions, process optimisation for enhanced productivity, and a reduction in errors and improved turnaround times.

Top projects by spend

- ARO transactional banking enhancement (R83.4 million)
- Collections transformation programme (R62.7 million)
- Home loans redesign programme (R61.7 million)
- Retail bank digital project (R47.8 million)
- Salesforce implementation and refinement (R3.4 billion)
- Digital self-service project (R38.0 million)
- Microservices build (R36.4 million)
- AVAF redesign (R29.8 million)
- LevelUp programme (R49.6 million), comprising digital initiatives to support employees' hybrid work environment.

## Superior digital experiences for our clients and employees

We seek to create seamless end-to-end client and employee journeys that are consistently measured to determine progress. This entails driving digital adoption and sales across our client base, optimising and automating back-end operations and leveraging digital technology to launch new transformational products and banking capabilities through our clients' channels of choice.

The number of digitally registered customers increased by 18% while digitally active customers rose by 11%. Likewise, volumes of digital transactions increased 20%, lifted by pricing reforms. While we are pleased by the positive momentum, we remain significantly behind the South African average of 54% for digital enrolment. This, therefore, remains an area of strategic focus going forward.

Absa was recognised for our digital banking offering, securing wins in two categories at the Global Finance Digital Innovator Awards. Absa was awarded Outstanding Financial Innovator in the banking category in Africa, while the Absa Access product was the winner of the Outstanding Innovation in the cash management category. In Mauritius, Absa won the best application of Internet of Things (IoT) award with Digital Banker, Innovation Retail Banking Awards.

### Absa Access

Absa Access is a Pan-African, single sign-on platform that gives clients standardised, secure, and near real-time access to their business portfolios and banking services in all our presence markets. In 2021, we offered key solutions through our Absa Access platform, including enabling clients to:

- Optimise their cash conversion cycles
- Initiate trade-related transactions, such as letters of credit to international suppliers
- Apply for foreign exchange (FX) and make international payments, all on the same platform.

Furthermore, Absa Access has been central to advances in our FX offerings this year. Clients can now:

- Express an interest in our FX products and solutions through an online contact form
- Enjoy an end-to-end solution, from applying for FX and securing an exchange rate to making the actual payment or redeeming their foreign currency received
- Enjoy flexible access to the FX market through the Absa Access Mobile app
- Choose their preferred way of executing trades with Absa through our single dealer platform, across multiple aggregator platforms, or by integrating their systems to our FX application programming interfaces
- Benefit from improved risk mitigation through enhanced safety, security and stability.

We have received positive feedback from our clients regarding the intuitive and user-friendly nature of the platform. We use client feedback to prototype upcoming features and continuously improve the platform's design.

Enhancing customer experience through cutting-edge digital solutions is a key priority. In line with this aim, we launched Absa Abby on our banking app. This internally built, award-winning virtual assistant helps customers navigate the banking app with ease. Powered by AI, Abby learns from customers' interactions on the banking app and can provide guidance based on customer habits to improve their experience over time.

**Absa Abby**

In partnership with Apple Pay, Absa launched a convenient, safer and contactless method for customers to make payments directly from their iPhones, Apple Watches, Macs, or iPads. Apple Pay is a digital wallet that enables on-device cardholder verification (biometrics, facial recognition, or passcode) to securely and efficiently pay in stores, on apps and the web. Apple Pay also enables an easy checkout option when paying online, thus eliminating the need to carry an Absa Debit or Credit Card.

Other important initiatives include:

The **Makola Pan-Africa Payment** transformation programme continues to deliver at a steady cadence with releases across all Africa markets, enabling new capability in international payments, real-time gross settlement and domestic high-value, fast-value and domestic low-value payments.

The Transactional Banking South Africa Cash business completed the migration of clients onto the new **Absa Access Online Collections** value proposition, enabling the technology team to decommission the legacy Business Intelligence Mailbox channel, remove vendor dependencies, and decommission unsupported infrastructure.

Our **Absa Vehicle and Asset Finance Bancassurance** is an end-to-end self-service capability, which aims to deliver value-added products to enhance vehicle and asset finance, as well as our insurance offerings.

Our **Retail Bulk Notes and Coin Recycling Device** project will introduce a new device to our alternative channels' device offerings. This initiative will limit the physical contact between customers and employees while reducing money handling costs.

Our **Digital Onboarding** project seeks to improve our customers' onboarding journey, introducing and developing account opening features on the Absa app. We have specifically designed this for customers wanting to take-up a Transactional Savings Product.

We sought to enhance customer experience by migrating from the legacy Absa online banking functionality to the **Online Express** framework. We also improved the customer online banking service by including a single sign-on capability offered across digital transactional channels.

We enhanced our **complaints management solution** to use the current Salesforce system to ensure our customer satisfaction is carefully monitored.

Through our **Retail Banking Digistore**, we are invested in helping our SME customers grow and sustain their businesses by granting them access to a business ecosystem that will significantly boost their economic growth.

We introduced a new **Home Loans Credit Life** product at the point of sale. This allows our customers to pay their loan and insurance in a single debit order in one instalment and helps ensure we meet the National Credit Act requirements, which recently ceased the practice of debiting the mortgage account annually.

The **AVAF redesign programme** (also called **Bolt**) was primarily focused on new customer acquisitions and focused on both business process improvements and legacy technologies replacement. The new Bolt system was developed by a multi-disciplinary team using open source software reducing total cost of ownership. Primary benefits included:

- Reduced turnaround time from receiving dealer application to payment (4 hours down to 30 minutes)
- Improved employee experience as different Absa divisions use one system resulting in a single view of transaction, reducing call volumes
- Reduced technology cost
- Reduced dependency on third party vendors
- Improved relationships and enhanced dealer communication.

## Data as a strategic asset

We manage and deploy our data assets to leverage our strategic platforms, empowering our businesses to deliver new levels of customer growth, efficiencies, risk management and business insights. We made progress in decommissioning legacy data warehouses while we continue to drive down data centre square meterage, aligning with our cloud journey.

Other important initiatives include:

Landing this year's milestones for the multi-year **Fundamental Review of the Trading Book Solution** to comply with Market Risk regulations.

The **Owari project** aims to configure and standardise finance data solutions to leverage data as a strategic asset and modernise the digital finance architecture.

**IFRS 17** sets out the requirements that a company should apply in reporting information about the insurance contracts it issues and reinsurance contracts it holds. Our IFRS 17 initiative aims to prepare our systems for implementing IFRS 17 to enable regulatory compliance in terms of financial reporting.

Our **Retail Definition of Default Alignment** project objective is to, as a primary aim, align all internal rating-based capital models and IFRS 9 impairment models for RBB retail to a new default definition. The secondary objective of the project is to implement a new point-in-time probability of default models (where available) and re-assess the through-the-cycle probability of the default period for all these models.

As part of Absa's **spend analytics** offering, we have used advanced analytics to provide our clients with better and insights into their customers' behaviour, industry trends and their transactional flows both through our class-leading Pocket Flow analytics product as well as bespoke **data science advisory** partnerships.

In RBB, we have achieved significant gains in client retention, sales and rewards by leveraging the use of advanced analytics and AI across several initiatives. This allows us to better understand client behaviours, predict their product needs, present relevant offers, optimise customer rewards. Further, working across the value-chain has allowed us to generate significant internal business efficiencies while doing so.

Both of the above have been achieved by leveraging our core data fabric as well as our internally developed Model Analytics Platform, allowing us to rapidly prototype and produce new models and products at scale.

## Evolving technology architecture

Our new DebiCheck platform enabled the Group to achieve the DebiCheck regulatory cut-off of 1 November 2021. It offers protection from debit order abuse for consumers, as all mandates to collect from an account have to be authorised by the consumer before any collections can be made.

Absa builds application programming interfaces (APIs) as part of our goal to make it easier for clients to connect and transact with Absa. An API comprises a set of tools, definitions, and protocols for integrating application software and services. They allow products and services to communicate with other products and services without building a new connectivity infrastructure. As a result, clients can use our API services without complex technology integration, enhancing time efficiencies and reducing the cost to the client. Absa has had APIs available for DebiCheck and real-time payments for some time, and, in 2021, we expanded our offering to include other payment types and statement services. API development represents a continued strategic priority for Absa across the continent.

Sigma is Absa's sophisticated, Pan-African counterparty risk and pricing engine. Through Sigma, Absa clients can quickly access new products being released to the market; benefit from accurate pricing adjustments to holistically account for counterparty risk and be assured that pricing is underpinned by best-in-class models that ensure Absa's pricing for over-the-counter derivative clients is competitive while still adequately adjusting for risk.

Other important initiatives include:

**Cloud Access Service Broker** – We sought to investigate, purchase and implement a cloud data leakage prevention solution. Data held within the cloud environment must be protected at rest and in transit.

**CustomerOne** is a project that seeks to implement Salesforce as the front-end application for our sales and service processes.

Over time, Absa Insurance Company developed an insurance ecosystem to support its end-to-end business processes. However, the current environment is complex and integrated, and legacy logic in the system impedes the company's strategic growth objectives. Absa Insurance Company is therefore looking to decommission its legacy Oracle and mainframe systems and utilise a **modern insurance policy administration platform** to simplify transacting and improve engagements with clients across the insurance value chain.

Our **Investor Services initiative** facilitates the realisation of our Pan-African growth strategy by processing client instructions on a robust trade, corporate actions and securities platform focused on real-time processing with a highly scalable infrastructure, as well as seeking to grow our product portfolio in line with our sales pipeline.

## Trust and security in a digital world

Security plays a big part in a series of deeply interwoven and interconnected risks. Business complexity is growing, dependencies are expanding, and threat actors continue to evolve and develop sophisticated techniques to achieve their end goals. Absa remains aware that security risks can materialise at unprecedented and disorientating speeds. Furthermore, Absa recognises that, as technology becomes integrated into our business fabric, the defence of that fabric becomes significantly more important. Hence, Absa does not see security as a standalone problem and constantly develops new, innovative methods to detect and identify existing and emerging cybersecurity threats.

In instances where data breaches have occurred, Absa honoured all regulatory requirements and effectively identified the causal factors associated with these. Remediation programmes are in place, and the affected customers have been informed in each instance. Where required, we work with law enforcement authorities to assist, where possible, to ensure action is taken against individuals or entities in contravention of the law. Absa is continuously enhancing its capabilities to protect and respond to threats with the ultimate goal of protecting the customer. For example, our facial identification biometric technology offers customers an additional layer of security when engaging with Absa via digital channels while simultaneously enhancing the customer experience. The industry recognised this technology, and Absa won the Best Digital Innovation Initiative in Transactional Banking Award as part of the Digital Banker Middle East and Africa Innovation Awards 2021.

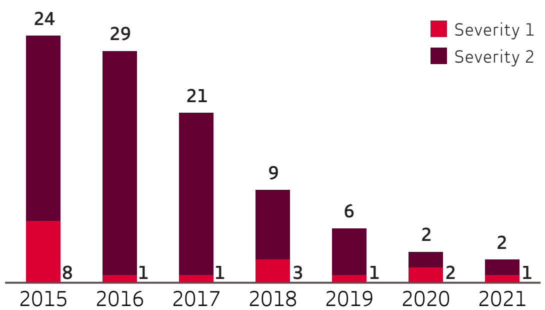
Absa understands that security is achieved through the everyday actions of employees across the Group. Therefore, we rolled out 14 new cybersecurity training modules for our employees to raise awareness of emerging cybersecurity risks. In parallel, Absa ran two phishing campaigns to test the effectiveness of its education programme.

### Stability

We have made steady progress over the past few years in our efforts to provide reliable and stable online and digital services to our customers, with a continued decreasing trend in the number of high impact incidents. Absa continues to focus on legacy system improvement as well as technology and security hygiene. To achieve this goal, our rate of change is high with an average of 3 200 change requests process per month, up 8% from 2020. During this transitional period, we are experiencing incidents that could not be anticipated. Unpredictable incidents are, however, inevitable when the rate of change is exceptionally high. We balance the speed of change with the stability of our platforms.

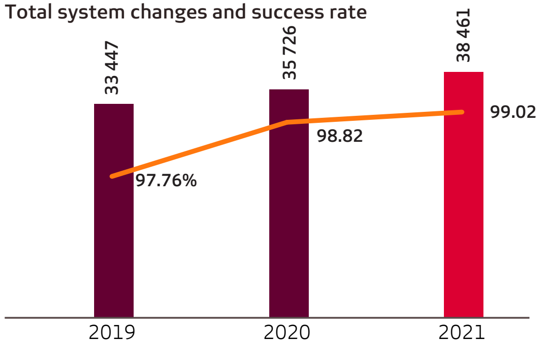
During the 2020 lockdown periods, we postponed many internal system changes to 2021 to lessen system change churn. As a result, an increase in system incidents from 2020 (53 incidents) to 2021 (97 incidents) is visible as we reinstated change projects in 2021. Not all incidents are equal in severity. Severity 1 and 2 classified incidents are those incidents with material or reputational risk impacts. This graph shows a continued downward trend in the number of severity 1 and 2 incidents.

**Number of incidents** (severity 1 and 2)



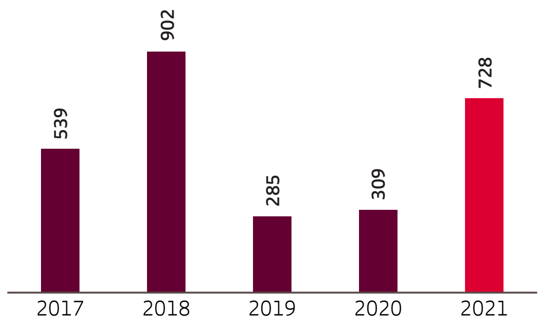

Simultaneously, there is a continuous improvement in the system implementation success rate. The percentage of unsuccessful changes resulting in notable impact in Absa is relatively low compared to industry standards. Of all unsuccessful changes in 2020, only 12 changes caused an incident (total incidents). The number of failed changes noted as being the root cause of major incidents is currently at an average of 0,05% of total incidents (severity 1 to 4).

**Total system changes and success rate**

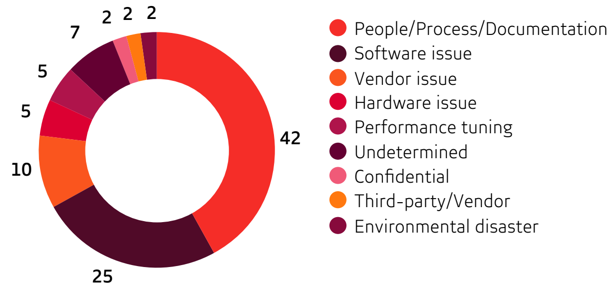



As technology has become less prone to disruption over time, it has also become more complex in its design, increasing the time it takes for incidents to be resolved.

**Major incidents average time to repair** (minutes)



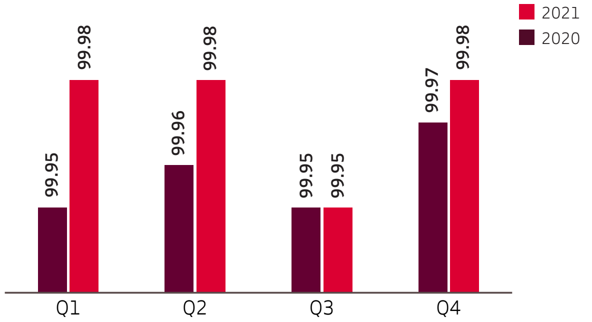

Analysis of the root causes of system incidents follow below:



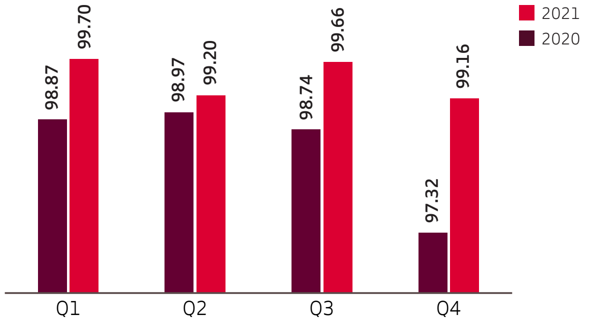
## Availability

We continuously shift into ecosystems and environments that are more digitally driven to provide our customers with an always-on service. Measures have been implemented to monitor the availability of our offerings to ensure our customers have access to highly available banking services. The key metric considered is the service availability rate experienced by our customers.

**Service availability for the Group (%)**




**Digital service availability for the Group (%)**




# Building digital skills and partnerships

To ensure we optimise our performance and remain a future-fit organisation, we conducted an investigation to identify the business's scarce, critical, and future technology skills. Through this analysis, we identified activities to mitigate the risk of a shortage in relevant technology skills. This included focusing on retaining and building skills and resourcing effectively to ensure Absa is well-positioned in the market as an attractive employer with a competitive employee value proposition. As a testament to our focus on this area, during the year, 60% of our training spend was focused on scarce, critical and future skills, with 40% invested to develop other business-as-usual skills.

## Developing internal skills

The gaps and associated risks identified through our skill analysis exercise reaffirmed efforts already underway to ensure the continuous monitoring, optimisation, retention, and development of the core and future skills that Absa requires. Several vital activities are already underway to drive a reduction in key skill churn. These include competitive reward, brand perception, new ways of work, the right culture and employee engagement.

**Diving deeper:** Human capital, page 50.

Helping to reskill the existing workforce not only drives retention but meets fundamental business needs. In the past three years, Absa has made significant investments in developing technology skills and capabilities internally. These investments include:

### Bursaries

R588 873 invested in bursaries for employees towards technology skills.

### On-the-job training

Absa seeks to provide employees with development opportunities that come from increased mobility, both internationally and within various on-the-job initiatives.

### Partnerships

- University of Witwatersrand investment of R6.1 million for 50 employees to secure diplomas (2020: R7 million for 58 employees)
- Henley Business School investment of R1.8 million for 20 employees to secure diplomas
- Explore Data Science investment of R5 million for 57 employees
- Online short courses from the world's leading universities offered by GetSmarter and MasterStart, representing an investment of R6.9 million for 235 employees in 2021 (2020: R3.3 million, 110 employees).

### Amazon Web Services (AWS) Cloud Incubator

We launched our AWS Cloud Incubator during the year, with 1 800 staff members across Africa gaining cloud computing skills. Employees from several countries took part in the programme, including South Africa, Kenya, Ghana, Botswana, Zambia, Tanzania and Mauritius. By the end of 2021, 1 553 employees completed their cloud journeys. Externally, we have 891 members to date, 234 certifications, and have hosted 22 informal learning events and welcomed 2 215 attendees at immersion events.

**Cloud computing training**

## Growing digital skills in the market

By understanding Absa's internal skills landscape and what is available in the market, the Group can drive a targeted talent acquisition approach to address identified skills gaps. To bolster these acquisition efforts, over and above what we are doing to retain skills, we have made a concerted investment in key initiatives, such as the appointment of specialised technology recruiters to source critical and scarce skills while exploring the development of a more global workforce to supplement the African resource pool, where required. Specific programmes are under development looking at attracting women into crucial technology roles.

We have sought to develop skills in the industry through funding bursaries and partnering with tertiary institutions and learning providers. For example, in 2021, Absa invested R14 million in undergraduate and postgraduate bursary tuition fees for 293 STEM (Science, Technology, Engineering and Mathematics) students from disadvantaged communities (2020: R15 million to 400 students).

### Cybersecurity Academy

Launched in 2017, the Absa Cybersecurity Academy has developed from an internally focused reskilling programme to an externally focused three-year learnership programme that has trained 112 delegates. We launched the Absa Cybersecurity Academy for the Blind in October 2021, supporting 10 delegates from marginalised backgrounds.

### Digital Academy

The Digital Academy has, since 2015, equipped over 555 students with critical digital skills as participants work in simulated software development environments designed to encourage digital product innovation to meet business and industry demand. We have employed 233 of these learners at Absa, while the rest have received opportunities elsewhere. In 2021, the Digital Academy embarked on five new unemployed learnership programmes, with a total intake of 100 learners, of which two of the groups are focused on learners with disabilities.

## Digital partnerships

Digital partnerships remain a crucial focus for Absa to achieve our digital ambitions. Increased investment in this area has strengthened our ability to innovate through experimentation with start-ups and corporates. Absa has built a strong network with global and local start-up ecosystems, allowing us to identify potential partnerships aligned with our business ambition to be digitally powered. We have extended our access to ecosystems in Africa, focusing on our presence countries, through partnerships with Elixirr, HYBR and SystemicLogic. During 2021, our partnership opportunities were focused on digital solutions for connected ecosystems, inclusive banking, digital adoption, cashless economies, transforming internal operations, advanced data analytics and AI.

As a result of our strong network, we could assess over 300 potential partnership opportunities aligned with our business strategy and digital trends. Our Group Digital Partnership capability quickly assesses and prioritises these opportunities to identify those of most significant value to our customers. This resulted in over 80 opportunities being tested to determine value to both our customers and business. We completed 12 proof-of-value assessments this year, with 10 more in progress. Areas of focus for these completed and inflight proof of values include, amongst others, digital assets and currencies, channel and mobile attribution, agriculture, value chain, e-commerce, digital identity and personal financial management. An example of an opportunity that was successfully tested with a partner and moved into business is our partnership with Appsflyer. Through this partnership, we have strengthened our ability to tailor our digital marketing campaigns on platforms preferred by our customers, with the benefits of effective customer engagement and improved digital adoption on our retail mobile banking application in South Africa. A key focus in 2022 is to expand our knowledge and network in the global distributed ledger community and to broaden our understanding of the use of this technology through a partnership with the Hyper Ledger Foundation.

In response to the shift to a more remote working model due to the COVID-19 pandemic, we have transitioned our physical Work-In-Progress Innovation Hub to a hybrid model. This comprises a virtual ecosystem with the start-ups in our network supported by strategic collaboration with physical innovation hubs aligned with our presence markets. We are currently collaborating with Citi, Grindstone and MEST and look to expand this network into other presence markets in 2022.

- Absa was awarded Outstanding Financial Innovator in the Banking Category in Africa, while the Absa Access product was the winner for the Outstanding Innovation in the Cash Management Category in the Global Finance Digital Innovator Awards
- The Absa Virtual Assistant clinched the Outstanding Chatbot Customer Experience Award in the International Digital Customer Experience Awards 2021
- We received the Mortgage Products of the Year, Best Digital Wallet of the Year, Best Chatbot Service and Best AI Initiative Awards at the Digital Banker Awards
- Our digital partnership and network blueprint were recognised at the Global Sourcing Awards 2021. Our partner Elixirr, who assisted Absa in defining the blueprint, won the Financial Services Project of the Year in the Global Sourcing Awards for Best Practice in Strategic Sourcing.

**Absa Digital partnerships**

## Brand

The Group maintained its clear focus on brand development and business delivery, with marketing investments returning to normal levels in 2021, following a period of reduced spending in 2020 due to the effects of COVID-19.

We continue to drive our strategy to become a purpose-led organisation and entrench our objective of bringing possibility to life for our employees, customers, clients, and the communities in which we operate.

In the second half of 2021, a Group campaign called **Here for the ready** was built around demonstrating how Absa can support those ready to bring their possibilities to life. The campaign centred around the opportunity that exists for Africa, despite the challenges its people – particularly young people – face. As part of this campaign, we launched the new Absa ReadytoWork app, with campaign metrics exceeding expectations.

**Diving deeper:** Reaching out to communities on page 73, provides more detail on ReadytoWork.

We enhanced our social media servicing capabilities and created several innovative social media marketing campaigns. The #WeDoMoreWednesdays campaign was highly successful, and we earned marketing accolades for Absa's innovative social media partnerships with Snapchat and TikTok. The #ZeroFeeSwag TikTok youth campaign won three Assegai Gold Awards in the Best Social Media, Best Innovative Solutions and Most Effective Use of Content categories, and a Gold Award in the Supersonic New Generation Awards. In 2021, Absa Bank Zambia was recognised by the Zambia Institute of Marketing for the Best Brand Campaign of the Year and Best Digital Marketing for the Year.

**Diving deeper:** Leading digitally page 66, provides more detail on #ZeroFeeSwag.

### Here for the ready

Young people are a vital asset in supporting the growth of our continent. However, this is only possible if they are equipped, enabled and given access to the resources they need. Beyond our youth, Africa is filled with people of all ages, social statuses and demographics who are eager, ready and willing to learn, work, grow and participate. We are here for people who are prepared to take the next step and take charge of their possibility. We have the insight, advice and practical tools to help you off the starting line because that is how Africa, its people and Absa will grow together – sustainably.

## Governance and risk management

The Board has ultimate accountability for the performance and affairs of the Group while seeking to entrench a beyond-compliance approach throughout the Group, supporting a culture that pursues ethical and effective leadership at every level of the business. It is not always possible to get this right, but our culture strives for improvement, accountability and engagement with our stakeholders.

**Diving deeper:** Investing in development, page 55, Governance, page 86.

We maintain an active risk management approach, identifying current and emerging risks. The risk strategy is developed alongside the Group strategy. The determined risk appetite defines the nature and amount of risk the Group is willing to take in pursuit of opportunities. Risk is managed through our Board-approved Enterprise Risk Management Framework and rigorous monitoring and reporting through several Board committees, including the Group Risk and Capital Management Committee, Group Audit and Compliance Committee, Group Credit Risk Committee, Social, Sustainability and Ethics Committee, Information Technology Committee, and Models Committee.

**Diving deeper:** Pillar 3 Risk Management Report

> ***"Absa has built a strong network with global and local start-up ecosystems, allowing us to identify potential partnerships aligned with our business ambition to be digitally powered."***

# Social and relationship capital

Sound relationships with our stakeholders are vital to protect against value erosion and support sustainable value creation and preservation. **Social and relationship capital** refers to the relationships that form the lifeblood of our business. This includes the institutions and relationships within and between our communities, stakeholder groups and other networks. This section outlines our relationships with the investor community, our customers, and society at large.

## Related material matters

**33** Maintaining economic momentum
**34** State-to-sector interconnectedness
**35** Managing societal change
**36** Climate change and the green transition
**37** Regulatory change
**38** Digital inclusivity

## Strategic response

**40** A diversified franchise with deliberate, market-leading growth
**40** The primary partner for our clients
**41** A digitally powered business
**41** A winning, talented and diverse team
**41** An active force for good in everything we do

## Contributing to SDGs

SDG 4 | SDG 5 | SDG 8 | SDG 10 | SDG 16

## Investor community

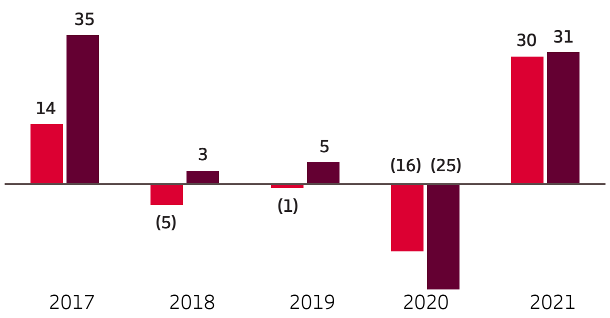
**We create value for shareholders by delivering sustainable growth and returns. We aim to provide the market with relevant information to make an informed assessment of our performance and prospects, to enable it to value our shares and debt.**

### Strong performance

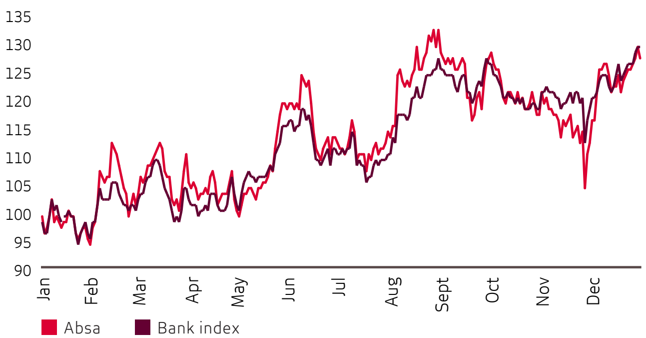
This year's 30% total shareholder return, our highest since 2014, was ahead of the JSE FTSE All-Share Index return of 29% and a significant improvement on 2020's minus 16%. Our financial performance was strong, with diluted normalised headline earnings per share rebounding >100% to 2 193.4cents per share, on the back of 7% pre-provision profit growth and significantly lower credit impairments. Our earnings were 14% higher than pre-COVID-19 levels in 2019, and our return on equity more than doubled to 15.8%, comfortably above our cost of equity. Lastly, our common equity tier 1 ratio improved to 12.8%, above our Board target range.

**Diving deeper:** Interim Group Financial Director's message, page 46.

**Total shareholders return (%)**




**Absa share price versus the JSE Banks Index (based to 100)**




## Shareholder engagement

In addition to our full-year and interim results presentations and related meetings, we provided trading updates in May and December, attended six equity investor conferences and completed an investor roadshow for our AT1 issuance. We undertook a Chairman's roadshow ahead of our AGM. Specific interactions with shareholders covered management and Board changes, remuneration and our proposed BEE transaction.

Top engagement topics included:

- Management and Board changes
- South Africa's macroeconomic outlook and COVID-19-related matters
- Absa's dividend pay-out
- Outlook for our macroeconomic variables provision unwind
- Net interest income sensitivity to rising interest rates
- Medium-term return on equity guidance
- Regaining leadership in RBB South Africa
- Retail banking shift to digital
- RBB ARO turnaround
- Climate change and sustainability.

| Shareholder diary | |
|---|---|
| AGM[1] | 3 June 2022 |
| 2022 interim results[1] | 15 August 2022 |
| Dividend payment | 25 April 2022 |

1 – Subject to change.

## Customers

**To remain relevant, we offer innovative and cost-effective products and solutions. Customers provide revenue and are our primary source of deposits, enabling our lending activities.**

### Convenient and innovative financial services

We provide services to our customers through a multi-channel approach, with a choice of platforms encompassing digital, online, call centres, and face-to-face engagements in branches and customer suites with relationship managers. Our digital design and data capabilities are essential for responding to our customers' needs, enhancing their experience, and reducing their dependency on physical branches. We continue to create focused customer value propositions, improve key customer processes, ensure system stability, strengthen relationships with customers and sharpen our knowledge of key sectors. We have a broad range of propositions to meet the needs of our various customer segments.

Product and payment innovation highlights for 2021 include:

- Absa ARO was first to introduce a cardless withdrawal feature at its ATMs. The innovation allows customers to use a QR code generated from the Absa banking app on any smartphone to withdraw money from one of their ATMs across the country.
- To promote financial inclusivity at competitive rates, funeral cover was bundled with the Flexi Save Account as an added benefit.
- The Payments Association of South Africa (PASA), which is instrumental in the development of rules, criteria and governance structures around payments in the country, is a crucial stakeholder and member of the payments ecosystem in SA. As an organisation integrally involved in the financial services industry, PASA has a bird's-eye view of how the various financial institutions measure up when it comes to innovation and performance on the payments front. Absa earned multiple individual and team awards at the PASA Awards ceremony in November 2021, which celebrates excellence in payments and honours outstanding banks and employees for their commitment to maintaining the highest standards.

### Excellent customer service and advice

Our customer journey aims to address previously identified challenges in our service model and extract additional operational efficiencies through systematic automation and digitisation of back-office processes and services. The continued focus on improved customer experience by leveraging our voice channels and digitising non-empathetic service jobs means bankers are increasingly focusing on sales and value-added services.

### Treating customers fairly

The Treating Customers Fairly score measures our customers' perception of our performance against our conduct risk framework and the expected Treating Customer Fairly outcomes.

| | |
|---|---|
| Group 79.5% (2020: 80.4%) | RBB SA 87% (2020: 86%) |
| CIB 88% (2020: 88%) | RBB ARO Retail 82% (2020: 82%) |
| | RBB ARO Business Banking 78% (2020: 79%) |

The net promoter score (NPS) measures the willingness of customers to recommend our products and services to others.

| | |
|---|---|
| RBB SA 37% (2020: 38%) | ARO Retail 24% (2020: 20%) |
| ARO Business Banking 9% (2020: 11%) | |

The client experience score measures the service quality experienced by our customers, with some improvement noted:

| | |
|---|---|
| RBB SA 82% (2020: 80%) | CIB 79% (2020: 72%) |
| ARO Retail 76% (2020: 72%) | CIB SA 78% (2020:74%) |
| ARO Business Bank 66% (2020: 69%) | CIB ARO 81% (2020: 69%) |

#### Accolades evidencing our focus on being the primary partner to our customers

- International Finance Awards 2021 – Best Investment Bank South Africa
- Euromoney Awards for Excellence Africa 2021 – Best Bank for Financing
- Airfinance Journal Awards 2020, Africa Deal of the Year for the Angola Airlines USD145 million commercial loan
- The Global Economics Awards 2021 – Best Investment Bank
- Global Finance Awards 2021 – Best Investment Bank Mauritius and Best M&A Bank in Africa
- African Banker Awards 2021 – Investment Bank of the Year
- EMEA Finance African Banking Awards 2021 – CIB SA for Best Investment Bank, Equity House and Loan House, and Absa Bank Mauritius for Best Investment Bank
- Best Martech Award – Absa Bank Kenya
- The Ghana Information Technology and Telecom Awards – Absa Bank Ghana received the Best ATM and Kiosk Implementation Award
- Global Business Outlook Awards – Most Innovative Retail Bank in Tanzania
- International Business Magazine –Best Retail Bank in Zambia
- Global Banking and Finance Review – Best Retail Bank in Seychelles 2021
- Global Business Outlook Awards – Best Customer-centric Bank in Ghana
- Raging Bull Awards for 2021 for South African Banking Products:
  - Absa Bond Fund for Best Interest-bearing Fund and Best Variable-term, Risk-adjusted Fund
  - Absa Smart Alpha Defensive Fund for Best Multi-asset Low Equity Fund.

Absa noted the lowest number of complaints from the Ombudsman for Banking Services of the big five banks for the second year in a row. Our closest competitor opened 207 (19%) more cases in 2021. Absa opened 1 071 cases in 2021, a 14% increase (constituting 128 cases) from 2020 on the back of an industry increase in complaints of 7% (493 more cases).

The highest complaint category for Absa in 2021 was current accounts (20%), followed by vehicle finance (15.97%), mortgage finance (15.78%), credit cards (9.43%) and personal loans (7.47%). The remaining complaint categories are all credit-related and point to customers that are debt stressed, mainly due to the macroeconomic situation brought on by the pandemic.

The rate at which referral matters are converted to formal complaints decreased to 53% from 55% in the prior year. Referrals did not convert as a result of Absa failing to respond to its customers, but rather as a result of matters not being resolved according to the customers' expectations. This should be contextualised against findings in favour of Absa in over 69% of formal complaints.

We communicate complaint volumes and metrics and report monthly to assist the business to identify and remediate issues promptly.

### Protecting possibilities for future generations

Recognising the inextricable link between Absa's growth and sustainability to that of the communities we operate in, Absa has adopted an integrated approach to achieving impact through being an active force for good in everything we do. We work responsibly with our clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations. We adhere to UNEP FI Principles on Responsible Investment and Responsible Banking. We have commenced the process of alignment to the proposed Principles of Responsible Insurance. Through oversight from our Social, Sustainability and Ethics Committee, we ensure our product development and conduct are in the best interest of our stakeholders.

Our PRB and TCFD reports provide deeper insights into these areas, and we will issue the publications in May 2022. Notably, in South Africa, the provision of responsible insurance particularly interests the Prudential Authority, and proposed guidance and standards are being developed.

In response, Absa considered the latest developments and focus areas in the life insurance industry, including the responsible investment of assets and responsible underwriting of liabilities, appreciating our responsibility as one of significant public interest. With an ambition to be the leading bancassurance ecosystem, with society at the heart of its digitally enabled solutions, Absa Life aims to:

- Improve customer awareness on the importance of protection and the role of insurance
- Promote understanding of insurance and life planning to society
- Promote the provision of appropriate life insurance products and services for all by enhancing consumer-friendly life insurance services
- Design and deliver incentives and product features that improve wellness and wealth, advocating for healthy life expectancy
- Responsible use of data to enable wellness and life insurance awareness
- Actively participate in shaping the industry through the ten different ASISA committees on which it is represented.

- Absa achieved a podium position (second) in the Best Bank Category at the annual awards ceremony hosted by the Ombudsman for Banking Services
- Absa Bank Botswana won Best Service Bank in the Banking Sector at the Chartered Institute of Customer Management Awards
- Absa Bank Zambia won a Customer Excellence Award at the Chartered Institute of Customer Management Awards.
- Absa Life achieved a first place ranking for overall customer satisfaction in the 2021 SA-sci for Life Insurance survey.

## Leading digitally

We are actively rolling out digital infrastructure and offering our customers more innovative solutions to stretch digital boundaries to meet and exceed their needs in a rapidly developing landscape. Our digital transformation towards a low-touch, low-contact future is accelerating at a fast pace. In so doing, we will make banking and ways of payment more cost-effective for all our customers.

Our Abby chatbot enables seamless in-app navigation on the Absa banking app and offers access to how-to guides and the latest product information. We are currently developing the chatbot's natural language processing capabilities to enhance our customer experience.

Likewise, our Absa ID Facial Biometric technology serves to eliminate many customer pain points when logging into the banking app while enhancing our verification and fraud prevention capabilities.

The launch of Apple Pay has also enhanced customer experience, providing a faster, more secure, touchless payment method that works across purchases.

Absa Advantage went live with 100 000 customers joining in the week of the launch. The Absa Advantage feature allows clients to bank smarter, providing educational scenarios on how to bank better or manage their money while receiving instant rewards on completion of the challenges.

Within the SME segment, the Business Evolve proposition continues to be enhanced, focusing on providing a digitised, bespoke and easy-to-use solution for customers. To date, the response from customers has been encouraging, with Business Evolve accounting for 83% of the new accounts opened in 2021. Further product enhancements delivered during the year include:

- An automated overdraft facility
- Integration of merchant acquiring services into the customer onboarding journey supported by the successful piloting of Mobile Pay, an innovative solution that turns any smartphone into a PoS device.

Our Absa Life Digital 2021 initiative seeks to expand access to life insurance for our customers through our digital solutions, ensuring that we integrate insurance solutions with RBB's customer journeys and digital channels. This project aims to provide customers with an end-to-end, digital insurance self-service functionality, boosting customer experience and productivity through automation and continuous improvement in the back-office. For example:

- Integration of the Instant Life digital onboarding and claims process into bank branches assisted product growth by 21% in 2021
- Claims WhatsApp chatbots assist in seamless claims processing

- Through collaboration with FinTechs and entrepreneurs, we contributed to economic growth, job creation and access to financial services by delivering a digital platform that enables an easily accessible, digital experience while providing simple life insurance products at disruptively low prices.

Integration of the Instant Life digital onboarding and claims process into bank branches assisted product growth by 21% in 2021.

CIB has made progress since launching Absa Access, migrating 99% of clients across ARO markets onto the platform, with a small portion due to be migrated in 2022. The remainder of 2022 will focus on migrating clients in SA, increasing the level of client activity on the platform, and improving the overall user experience.

We launched our #ZeroFeeSwag youth campaign to highlight our zero-charge student account. As a result, Absa became the first South African bank to run a coordinated, targeted campaign on the world's fastest-growing social media platform – TikTok. The campaign amassed 12 million engagements and led to the achievement of almost 50% of our annual target for student cheque account sign-up during the two-week campaign.

- Absa Abby – Winner of the Best Big Data Initiative, Outstanding Chatbot CX and Best Vendor Implementation Awards
- Absa ID – Winner of Best Digital Innovation at the Best Digital CX Awards
- Winner of the Best Transactional Bank in the Middle East and Africa Award
- Absa Advantage – Winner of the Best Customer Loyalty Programme Award
- TikTok #Zerofeeswag – Supersonic's New-Generation Marketing Gold Award for the Most Viral Campaign
- 2021 Best Digital Bank in Mauritius – Global Brands
- 2021 Best Digital Bank in Mozambique – Global Banking and Finance Review.

**Diving deeper:** Brand, page 63.

## Safety and protection against fraud

Fraudsters are constantly developing their methodologies and approaches. Heightening our customers' awareness is therefore essential to prevent becoming victims of fraud. Employees undertake mandatory annual training, covering various topics, such as anti-money laundering, data privacy protection and anti-bribery and corruption. To safeguard our customers, employees, and the Group, we issue regular communications regarding financial crime, with topics such as avoiding phishing attacks, conducting online shopping, travel tips, and card and app safety. Despite improved security, fraudsters continuously devise new plans to circumvent the latest safety measures. This was aptly evidenced by fraudsters' efforts to use COVID-19 to exploit people's fears.

Fraud is a risk type that evolves on a continuous basis as the financial landscape shifts from a physical to a virtual interaction. Fraud syndicates take advantage of the changing environment. RBB recognised the risk and it's impact on our customers in 2019 when we defined a fraud strategy. The fraud strategy supports the virtual shift while being agile to address all areas of interaction and transacting. The approved strategy aims to reduce customer impact and friction by preventing fraud and detect the continuous change in modus operandi. The prevention and detection capabilities are supported by various layers of controls which the bank adjusts as new risks emerge. The investments made to date has delivered good results and further investments are made to ensure RBB has industry leading capabilities that remains relevant to the ongoing change in the fraud landscape. Ongoing awareness to customers and staff are well embedded to ensure all parties are familiar with the fraud threat and how it will present itself. The awareness are presented through direct engagements via email, text, mobile applications and training or through media interaction (interviews, opinions or responses).

Our protective measures includes, but are not limited to:

- Bio-metric verification during certain high risk transactions
- Real-time monitoring and behavior scoring
- Refinement of risk detection monitoring
- Additional mobile application services
- Rewards awareness campaigns
- Digital fraud warranty to encourage the adoption of our latest controls.

CIB recognises the serious impact fraud has on our clients and the trust they have in us in safeguarding their assets. We therefore continue to invest significantly in our fraud prevention and detection controls and technology. During 2021, we implemented several new fraud capabilities, providing additional defences for our corporate clients against digital and transactional related fraud schemes. Our Transactional Banking Fraud Operations team was expanded and continues to provide our corporate clients with dedicated support on fraud-related matters. We proactively detected a significant number of external scams and schemes, along with material recoveries, to the benefit of our clients.

We appreciate that adhering to the highest standards of ethical conduct is fundamental to maintaining the trust and confidence of all of Absa's stakeholders. We consistently apply standards across the Group, including risk management, conflicts of interest, competitive practices, bribery and corruption prevention (including gifts and entertainment), anti-money laundering, sanctions and financial crime prevention, fraud prevention, and communication with internal and external stakeholders.

All Absa employees are required to support the organisation's efforts to combat fraud by being vigilant, taking proactive steps to report incidents and following processes and procedures that have a number of built-in fraud controls.

**Diving deeper:** Employee conduct, page 89.

Privacy is the foundation of our relationships. Our data privacy policy aims to ensure we collect, transfer and store electronic and hard copy personal data appropriately, protecting against the misuse or abuse of information.

**Diving deeper:** Trust and security in a digital world, page 60.

## Giving back to customers

Often regarded as the backbone of the economy, SMMEs have been hit hard by the pandemic. As a bank, we can play a role in supporting this essential sector of our economy. In 2022, we will launch Absa Small Business Friday, a rewards programme where Absa Rewards members and participating SMMEs can earn cash rewards.

We had a first-hand appreciation of the disruption caused by the looting in July 2021 in certain regions of South Africa. This, however, only strengthened our resolve to ensure our customers had uninterrupted access to banking services. Accordingly, while working to restore affected branch and ATM operations, and following the assessment of the impact of the riots and civil unrest on both retail and business bank customers, we introduced the following measures to assist our customers:

- **Re-introduction of payment relief:** With immediate effect, we re-introduced the Siyasizana programme to provide a bespoke payment relief solution to assist impacted retail customers (individuals) with existing credit facilities.
- **Tailored credit/relief solutions for business bank customers:** We offered dedicated, bespoke credit solutions for businesses (including SMMEs) as they rebuilt and restored operations. Solutions were based on the unique circumstances and needs of each business.
- **Reduction of Saswitch fees for two months:** As part of an industry initiative, we subsidised the fees charged when a customer used a Saswitch ATM from 1 August 2021. Customers could use any ATM in South Africa and pay the usual fee charged by their own bank.
- **Ensured Absa-supported ATMs were more affordable:** In addition, cash withdrawal fees were reduced at Absa-supported ATMs (machines not owned by Absa). Retail customers who use our transactional accounts could withdraw cash at PoS terminals free of charge.
- **Bank-on-wheels:** We deployed mobile ATMs to the affected communities in parts of KwaZulu-Natal to provide banking services and to ease the pressure, particularly for the South African Social Security Agency (SASSA) payment period.
- **Assistance with PoS terminals:** We waived PoS monthly terminal rental fees for businesses that have been affected by the unrest and assisted with replacements, if required.
- **Offered payment relief for life insurance:** We provided an additional two-month premium payment relief to ensure that standalone life insurance cover remained unaffected. In addition, all valid claims, including hospitalisation, disability or death, because of the recent unrest, were paid.
- **Concessionary claims** – While the industry standard was to decline claims for loss of income where a policyholder received Temporary Employee Relief Scheme (TERS) payments, Absa Life did not regard TERS payments as income earned. These policyholders were therefore not disqualified from claiming.
- **Fast-tracked claims:** Absa Insurance Company assisted insurance customers with fast-tracking claims assessment, processing and fulfilment as per the mandate from the state-owned insurer, SASRIA, for losses arising from the unrest.

## Regulators

### Continuing to build and maintain sound, positive, and healthy relationships with regulators and government is essential, given the vital role they play in ensuring the financial system's stability.

Banks are a stimulus for economic growth and are therefore more regulated than other institutions. Banks provide an efficient payment system to the economy, and a well-regulated stable, and supervised banking sector is essential in the sustainable economic growth of economies in which all stakeholders prosper. In discharging our role as a financial institution, Absa has a responsibility to comply fully with the regulations in all the jurisdictions in which we operate.

Absa ensures prudent management of assets and adheres to safe and sound banking practices, maintaining adequate internal control measures to prevent financial malpractices and ensure stability in the system. Absa is a responsible corporate citizen, adopting sustainable banking practices and ensuring regulatory compliance that promotes a thriving society while working closely with regulators and industry bodies.

### COVID-19 regulatory intervention

The Absa COVID-19 Advisory Board (CAB) has continued to manage the Group's response to the COVID-19 pandemic, with the mobilisation of protocols as required with each iteration of the relevant regulations in the countries where Absa operates. We played a significant part in establishing an industry vaccination site that saw the vaccination percentage for the banking industry rise significantly in the first two months of its operation.

Absa has not opted for a vaccination mandate but has instituted a Mandatory Disclosure of Vaccination Status Policy. This approach allows Absa to get better insights into the reasons for, and against, vaccination, which will enable us to enhance communication, mobilise more resources and create vaccination opportunities for our colleagues.

Looking forward, and as the COVID-19 pandemic moves to an endemic state, Absa Group has defined several Ways-of-Work programmes to define and implement a revised and sustainable workplace strategy based on the new ways of work established throughout the COVID-19 pandemic. The CAB's focus will shift in the coming months to maintaining a safe working environment as the outcomes of these Ways-of-Work programmes are realised. These programmes will see the number of colleagues in the office increase.

The CAB, however, remains flexible and will adapt the relevant protocols as it may be required with new variants and regulations that may be posed in the coming months.

### Market conduct

The South African Financial Sector Conduct Authority (FSCA) published the Conduct Standard of Banks on 3 July 2020, which was designed to follow the sequencing of the six Treating Customers Fairly outcomes. The objective of the standard is to ensure the fair treatment of customers, with an emphasis on product design, transparency, and disclosure. The FSCA commended Absa for taking a proactive stance in adapting and aligning its policies as guided by the principles.

The Absa Way Code of Ethics (the Code) was recognised as 'Leading' In the Ernst & Young maturity assessment performed in 2020 on Absa's Fraud Risk Management process. It was found to clearly demonstrate the behaviour expected from Absa employees, setting a solid foundation for employees to live the Absa Values. The Absa Board has pledged its commitment to the Board ethics statement, which is aligned with the Absa Way Code of Ethics.

The number of disciplinary cases as a percentage of employees remains stable. Most matters dealt with in 2021 relate to less serious offences. Of the 1 577 disciplinary cases concluded in the year (2020: 1 502), 414 were due to ethical breaches (2020: 321). In addition, a few third parties are under review for possible corruption-related violations.

The large number of whistleblowing reports received demonstrated that employees place trust in the process. The whistleblowing policies and processes in place are considered to be clear-cut and well communicated. Whistleblowing investigation protocols are fully integrated into Absa's processes and clearly communicated and understood by staff.

We continue to monitor, implement and, where required, perform impact assessments on various developments, including:

- Data privacy, the protection of personal information and cybersecurity in multiple jurisdictions
- Customer engagement across all business operations
- Performance of all our products and services.

**Diving deeper:** King IV – Ethical leadership, page 88.

We continue to respond to the following South-Africa-specific conduct-related legislation:

- POPIA
- Financial Sector Regulation Act (including the Financial Sector Levies Bill)
- Financial Sector Laws Amendment Bill
- Conduct of Financial Institutions Bill
- Financial Matters Amendment Bill
- National Credit Amendment Act (debt intervention)
- Amendments in the Financial Advisory and Intermediaries Services (FAIS) Act (including the general code of conduct, fit-and-proper requirements, and recognition of crypto currencies as FAIS financial products).

New ARO legislation includes:

- Kenya – Data Protection Regulations issued in January 2022
- Uganda – Data protection and Privacy Regulations issued in 2021.

Absa has a Group-wide Risk Management and Compliance Programme (RMCP), in accordance with the South African Financial Intelligence Centre Act (as amended), providing the strategic direction pursued by the Group towards achieving our objectives regarding financial crime risk management and compliance. The RMCP covers financial crime holistically and consequently it is underpinned by the Group Anti-Money Laundering Policy, Group Sanctions and Proliferation Policy and Group Anti-Bribery and Anti-Corruption Policy and associated standards. We align our policies and standards with local regulatory requirements and international best practice standards. Our training and awareness programmes ensure our employees are aware of their responsibilities in terms of fighting financial crime.

We continue to proactively identify trends and threats and develop commensurate typologies to ensure that the RMCP and underlying policies and standards remain relevant. To strengthen the collective efforts to fight financial crime and to remain effective in our fight against financial crime, we actively collaborate with private and public sector bodies, both locally and globally. Moreover, we play a prominent role in proactively providing input on new legislation and changes to current legislation to ensure we contribute positively towards the effective fighting of financial crime. 98.2% of our employees received anti-bribery and anti-corruption awareness training.

**Diving deeper:** Absa has been a driving force in several legislative and regulatory developments across the continent and globally, playing a key advocacy role in many industry engagements. Outlook (page 79) provides more information on the regulatory developments to which we will contribute.

## Prudential oversight

We complied with key aspects of Basel III as follows:

- Exceeded the capital requirements, with a common equity tier 1 ratio of 12.8%, above the SARB requirement of 7.5%
- Achieved a liquidity coverage ratio of 116.8%, above the SARB minimum target requirement of 80%. The SARB has changed the minimum requirement to 90% with effect 1 January 2022 and increasing to 100% from 1 April 2022
- Achieved a net stable funding ratio of 116.1%, above the minimum regulatory requirement of 100%.

We are progressing our response to Basel III: Finalising Post-crisis Reforms.

## Revenue authorities

Our tax philosophy ensures that we pay the appropriate amount of tax in the jurisdictions in which we operate. In 2021, we paid R7.6 billion in direct corporate taxes and R1.9 billion indirect taxes. This included our carbon tax contributions.

In South Africa, the reduction of the tax rate from 28% to 27% for years of assessment ending on or after 31 March 2023 was substantively enacted by the finance minister on 23 February 2022. The impact will include the restatement of deferred tax balances assets.

In Zambia, a reduction of the tax rate from 35% to 30%, effective 1 January 2022, was enacted in December 2021. The impact will include the restatement of Absa Bank Zambia's deferred tax balances.

Ghana's parliament enacted the Financial Sector Recovery Levy Act. This levy was passed as part of the various tax measures introduced by the government in the 2021 Budget Statement and Economic Policy to raise revenue to support the financial sector reforms and other matters. This has resulted in an additional 5% tax payable on Absa Bank Ghana's profit before tax, and a 5% increase in the effective tax rate as a result, effective 1 April 2021.

Digitisation and innovative technologies leading to new business models and ways of managing tax risk have become increasingly important to ensure sustainable corporate governance. Tax authorities are focusing on using technology to manage tax risk and provide real-time reporting. Further reporting requirements, such as the Organisation for Economic Co-Operation and Development (OECD) Mandatory Disclosure Rules, Directive on Administrative Co-operation 6 EU regulations and privacy laws around tax information sharing, have required an increased focus on our reporting capabilities and a federated tax risk management strategy to ensure the responsibility for managing tax risk is spread across all areas. Robust processes and controls have become essential to managing tax compliance obligations.

During the 2020 and 2021 years, we worked with the South African Revenue Service, participating in trade testing to automate the country-by-country e-filing return submission in accordance with the OECD Schema (version two). The new e-filing upload method now allows for an XML file option, and Absa was the first trade testing participant to successfully submit in April 2021.

# Society

**Our success is interlinked with the wellbeing of the societies in which we operate. Therefore, we aim to amplify the positive impact of the Group by contributing to solutions that address several socioeconomic challenges while reducing adverse effects that may lead to value erosion for the Group and for the societies in which we operate.**

**Diving deeper:** This section should be read in conjunction with the 2021 ESG, PRB (May 2022 publication) and B-BBEE Reports

## Responsible procurement and supplier diversity

Our suppliers include SMMEs and national, regional and multinational companies and state-owned entities. Total procurement spend for the Group was R20.5 billion in 2021. Our supply chain increased to 2 368 suppliers (2020: 2 197) in South Africa due to the e-market portal for supplier participation and reduced to 2 401 (2020: 2 572) in ARO, primarily due to operational impacts resulting from COVID-19.

Absa is one of the principal buyers of goods and services in the South African financial services industry, and we use our purchasing power to support a transformation agenda. The Amended Financial Services Charter requires that we:

- Measure the level of procurement spend from B-BBEE compliant companies, qualifying small enterprises, exempted micro enterprises and black-owned and black women-owned companies
- Support black-owned small and medium enterprises through our enterprise and supplier development initiatives.

In South Africa, our total procurement spend was R18.9 billion, of which R16 billion (86.2%) was procured from locally registered businesses (2020: 81.4%). The weighted spend (calculated in accordance with the Department of Trade, Industry and Competition's Codes of Good Practice) is allocated as follows:

- R4.4 billion with 698 exempted micro enterprises and 413 qualifying small enterprises (2020: R3.5 billion; 909 small to medium enterprises; 466 qualifying small enterprises)
- R6.5 billion with 461 suppliers who are 30% or more black women-owned enterprises (2020: R4.8 billion; 479 suppliers)
- R8.5 billion with 773 suppliers who are 51% or more black-owned enterprises (2020: R9.2 billion; 903 suppliers)
- R642.1 million with 43 designated suppliers, including unemployed and disabled individuals, youth, black military veterans, and people from rural and underdeveloped areas (2020: R175.5 million; 17 designated suppliers).

We contributed R140.5 million (2020: R231.0 million) to supplier development initiatives, including R68.5 million (2020: R153 million) in funding at preferential interest rates and capacity-building grants for small and medium enterprises supplying goods and services to Absa.

### Supplier diversity

We promote responsible procurement and prioritise purchasing from small and medium enterprises.

Pavati Plastics is an Absa supplier diversity beneficiary who entered the programme in 2017 after being awarded a contract to produce and supply the Absa branch network with various money bags. Absa funded the supplier to enable growth and provided business development support, which has assisted the supplier in entering other markets. Together with the Industrial Development Corporation, we co-funded Pavati Plastics in a new initiative to expand their product range. As a result, Pavati Plastics is in the process of expanding and entering a market that was previously dominated by international suppliers.

Other business development programmes for 2021 included a focus on assisting beneficiaries in implementing the Protection of Public Information Act and pursuing digitalisation to address the challenges faced as a result of COVID-19, as well as to ensure compliance.

We support 28 supplier diversity beneficiaries, and the total loan amount at preferential rates amounted to R189 million.

**Pavati Plastics**

### The Absa Procurement Marketplace

Our preferential procurement and supplier development strategy focuses on the direct spend categories within the procurement value chain. We seek to align our approaches, internally and externally, to support this strategy. Moreover, to extend access to the Absa internal market, we have developed a user-friendly online portal, *www.absa.co.za/business/procurement-marketplace/*.

The Absa Procurement Marketplace is a simplified, single platform for prospective small, micro and medium enterprises (SMMEs) to register their company profiles, upload their value propositions and access supply opportunities with Absa. The portal allows prospective suppliers to:

- Access information relating to services and/or products that Absa requires
- Add their details to Absa's database, and easily identify the procurement categories and services that the bank is looking for
- Research their eligibility for Absa's supplier development programme, which provides business support, training, mentoring, and advisory services to qualifying SMMEs.

In collaboration with Absa, the Chartered Institute of Procurement and Supply offered a skills training course to the first 40 suppliers who registered on the portal. The training covered the introduction to procurement, supply chains, and contract management.

### Basadi programme

The Basadi supplier programme is an Absa Insurance Company shared value initiative aimed at uplifting black women-owned suppliers operating within the plumbing, electrical and building fields. The programme includes training and development, financial aid, preferential allocation of work and mentorship opportunities for the business owners. A formal selection process ensures the most suitable candidates are selected. In 2021, we supported black women-owned suppliers through the following:

- Supported six suppliers to move from enterprise development status to AIC suppliers after completion of the development initiative
- Partnered with Digicall incident manager to enable further exposure for these businesses and expand potential opportunities in other insurance companies
- Supported the expansion of certain of these businesses' services to include both plumbing and construction, where they previously primarily operated in one service
- Enabled the extension of the footprint of certain suppliers to operate in more than one area
- Provided 10 of the suppliers with the opportunity to attend an Absa-sponsored African Construction Trade Expo held in August 2021
- Undertook masterclasses to address the following topics: customer experience led by the AIC customer experience team; understanding supplier service led by AIC legal; pricing and invoicing led by claims, back-office and cost claims containment; and, lastly, a workshop on POPIA
- Provided preferential work allocation, within reason, for the suppliers on the panel.

For the remainder of the contract, we will continue developing the suppliers to expand their footprint and services.

### Absa virtual supplier engagements

We hold an annual virtual seminar focusing on women-owned businesses through the Lioness of Africa, where we discussed the real-life successes and lockdown challenges experienced by SMMEs in South Africa. Another virtual seminar concentrated on small business compliance and business matters. While there have been many casualties of COVID-19, there have also been inspiring stories of hope, persistence and innovation. This webinar series intends to offer inspiration and guidance by providing a platform for small and medium enterprises to share their stories.

### Supplier development dialogues

Now in its fourth year, the Absa Business Day Supplier Development Awards recognise and celebrate supplier development best practices in South Africa and encourage collaboration and learning across the African continent. The 2021 initiative incorporated a series of Absa Business Day Supplier Development Dialogues with partners in Africa, building a network of companies supporting small business growth through supplier development.

We saw an increase in the participation of corporates, and the quality of submissions improved dramatically.

The digital dialogue covered the following themes:

- Future of jobs – Employment, skills and workforce strategy in supplier development
- Digital inclusion of small suppliers – Can supplier transformation happen without it?
- Accessible finance for small suppliers – A tool to boost growth
- How to empower our youth through entrepreneurship
- What women want.

Included in the awards agenda was the profiling of four suppliers within Absa's own supplier diversity programme, comprising interviews and videos to showcase the achievements of these suppliers.

## Supporting small business

### Affordable finance for emerging businesses

Our structured approach to value chain financing blends our commercial funding with more affordable funds and/or guarantees from third parties to provide more affordable financing rates for emerging businesses that would not otherwise qualify for traditional finance.

### Debswana Diamond Company and Absa Bank Botswana partnership

Localisation is a critical strategic imperative for the government of Botswana as they look to retain economic value within the country, diversify and industrialise the economy and create employment opportunities. With this in mind, Absa Bank Botswana entered a formal enterprise and supply chain development partnership with the Debswana Diamond Company. This development cements Absa's ongoing enterprise and supply chain development relationship with Debswana over the last two years. The partnership has seen Absa Bank Botswana fund various local contractors under their Citizenship Economic Empowerment Policy, which looks to increase the participation of citizen-owned companies in their supply chain. Under this partnership, Debswana will award contracts to citizen-owned suppliers and contractors who will (if required) apply for funding facilities in trade finance or commercial asset finance from Absa Bank Botswana to enable these suppliers to fulfil their obligations under the contract. Through the Debswana partnership we have funded assets worth R462 million which comprises of commercial asset finance and working capital solutions. Total approved facilities to date amount to R618 million and the total value of contracts awarded amount to R1.5 billion.

**Absa Regional Operations enterprise and supplier development**

### Coco-Cola enterprise and supplier development

The Absa Bank Kenya/Coca-Cola partnership agreement aims to support small and micro-business outlets across the country, with over 200 distributors and 18 000 trade outlets being targeted in a phased approach. Through this partnership, we support businesses across the value chain with revolving, short-term working capital financing to bridge any cash flow challenges between stock purchase and receipt of payment from their customers. This allows the distributors and retailers the flexibility to accept extended payment terms from Coca-Cola, as well as increase their credit should they require it. The traders and their employees received COVID-19 health and safety training to adhere to government business opening and operating guidelines. To date, we have disbursed R7.2 million (c. KES 51 million)[1] in working capital facilities.

### Proparco collaboration to support SMMEs affected by COVID-19

In December 2021, Absa obtained a R320 million (USD20 million)[1] senior loan from Proparco, a significant development finance institution. The collaboration effort is aimed at corporate SMMEs operating in sectors impacted by the COVID-19 crisis, including construction, manufacturing, transport, tourism, wholesale, and retail. This strategically important agreement enables Absa to provide financial support to corporate SMMEs, a vital component of the local economy, as it recovers from the impact of the COVID-19 pandemic. The full loan amount would be utilised by the second quarter of 2022.

### Anglo American Zimele Fund

Absa collaborated with Anglo American Zimele Fund to provide host communities opportunities in core mining activities as part of the next phase of its transformation. Host community SMMEs have been provided with funding to acquire a fleet of six specialised trucks utilised in the transportation of PGM concentrate from Anglo Platinum's Limpopo and Northwest operations. Total funding of the project was R72.1 million.

### Capital adequacy (CAPAD) initiative

Absa undertook to finance a capital adequacy initiative targeted at black SMME stockbrokers to enhance their ability to participate in a larger percentage of the Johannesburg Stock Exchange (JSE) trading activity, which currently stands at 3%.

Through an innovative structure, Absa formulated a solution where the capital adequacy funds are ring-fenced (JSE-only access), such that traditional credit scores do not apply, thereby reducing funding costs to SMME members of the JSE.

For every R10 million of CAPAD Absa provides, a broker can accept an additional R500 million in trades or R500 000 in revenue. On average, this resulted in a 20 to 30% year-on-year revenue increase for the SMMEs.

[1] Converted to ZAR at 31 December 2021 spot rate.

## Women and youth entrepreneurs

### Sunlight Women of More programme

Absa Bank Kenya partnered with Unilever and the United Nations Institute for Training and Research to train 100 000 women over five years. The Sunlight Women of More programme will support Kenyan women entrepreneurs to develop their businesses into sustainable and profitable ventures by 2026.

### Absa Young Africa Works

For a decade, SMMEs have been major players in the Ghanaian economy, contributing 70% of GDP and providing significant employment. To this end, Absa Bank Ghana entered a joint partnership with the Mastercard Foundation to create the Absa Young Africa Works, aimed at enabling young people, particularly young women, to access work by investing in SMMEs. In this way, we seek to stimulate the growth of SMMEs to create access to 50 000 dignified and fulfilling jobs for young people and women in Ghana. The Absa Young Africa Works initiative is a five-year partnership. It is part of Mastercard Foundation's Young Africa Works strategy in Ghana – an ambitious ten-year programme to enable three million young people (70% women) to access dignified and fulfilling work.

The initiative is aligned with our commitment to play a shaping role in society through enterprise skills development initiatives designed to facilitate job creation and sustainable livelihoods for young people. Furthermore, this initiative underpins our commitment to equip SMMEs and support an equitable post-COVID-19 recovery in Ghana. Absa contributed R1.6 billion (USD 100 million)[1] of the total project value of R2.5 billion (USD 155.6 million)[1].

In 2021, the programme achieved the following:

- 44 SMMEs supported financially with a total of R37 million (USD2.32 million)[1]
- 500 SMMEs trained under the EMPRETEC Ghana Foundation capacity-building programme to accelerate business growth
- 494 SMMEs supported with business development and advisory services through monthly SMME clinics.

**Absa Young Africa Works in Ghana**

### Employee Care Plan

By collaborating with a fintech company, we integrated with a platform providing simple group life insurance products at low prices. The product, Employee Care Plan, is a group life product available digitally and covers small and medium enterprise employees if they are permanently disabled while performing their duties in the workplace or when they pass away.

## Focus on agriculture

Inclusive and sustainable growth is a significant focus for the agriculture sector. Absa enhances the sector's inclusivity by using innovative solutions to address the developing agri-sector's constraints to accessing finance. By solving challenges such as limited technical expertise, shortfalls in security and the high cost of borrowing, we have almost doubled our advances to the developing agri-sector compared with previous years. Furthermore, we seek to develop partnerships to co-finance the sector in blended finance schemes and thus expand our offering.

At Absa, we appreciate that investments in agriculture are long term. We therefore take a long-term view of each client, knowing that they will have good and bad seasons resulting from the changes in weather patterns. We are increasing our ability to serve our clients, monitor their enterprises and manage risks. Since 2020, we have used technologies such as remote sensing to closely monitor clients' crops and hence take proactive and timely decisions about serving and financing them. We have conceptualised and tested several other digital offerings and hope to develop and implement them in the short term.

Our specialists provide updates on local and global market insights to help our customers make more informed decisions through various media platforms, such as the Absa blog, television, print and social media. In addition, we provide a range of information to support the industry, including:

- Weekly livestock prices, containing an analysis of factors that impact global and local markets, and a forecast of expected prices within the next three months, covering feed grains, livestock, fibre, hides and feedlot

- Weekly commodity prices
- Annual commodity outlooks, comprising global and local economic drivers covering grain, oilseed and horticultural crops, livestock, fibre and other topical regulatory or resource issues, including a three- to five-year outlook on production, imports, consumption, exports and prices
- Hosting webinars to provide our clients with relevant information on market-related aspects and the bank products available to meet their needs.

### Khula agriculture app

Absa AgriBusiness signed up as an enterprise development partner with R2 million seed capital in collaboration with AECI, AFGRI and MSD Animal Health to develop the Khula agriculture app. The app currently has over 5000 active users, allowing small farmers to buy seed, fertilisers and connect with advisors. Absa provided integration for onboarding farmers with an Absa transactional account, creating e-commerce capability.

### Agri for women

Absa Bank Ghana facilitates business growth for women to increase employment and reduce poverty, in line with SDG 5: Achieve gender equality and empower all women and girls. The solution creates developmental and networking opportunities for businesswomen, enables access to the market and provides discounts on banking facilities. It also offers free financial and business advisory services, international travelling opportunities, and organising coding boot camps for children of women-farmers.

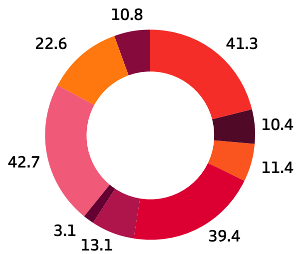
For agri-women to fully enjoy the benefits of this solution, they must ensure they are following best business practices, such as proper bookkeeping. We have partnered with the Mastercard Foundation to provide financial support and lend USD100 million (equivalent in cedis) over the next five years. We hope to impact at least 5000 small and medium enterprises. Undoubtedly, financial interventions like this will help agri-women groups such as Women's Small Livestock Breeders, Women in Poultry Value Chain, Yonkodo Farmers Group, and many more women agri-preneurs.

- Absa Bank Ghana received the Best Company in Supporting SMEs and Start-ups – Sustainability and Social Investment Awards
- Absa Bank Ghana received the SME Bank of the Year Award – Instinct Business Finance Innovation Awards
- Absa Bank Seychelles received the Best SME Bank Seychelles Award – Global Banking and Finance Review.

## Reaching out to communities

At Absa, we reach out and support our communities through various strategic public benefit support programmes and humanitarian relief. Financial literacy and education are priorities for Absa in line with our prioritised SDGs. During 2021, R194.8 million was invested in support of our communities.

**Community support** (R million)




| | |
|---|---|
| University scholarships (external and internal) | 41.3 |
| University strategic support | 10.4 |
| Other educational support | 11.4 |
| Youth employability skills training inclusive of YES initiative | 39.4 |
| Consumer education – financial literacy training | 13.1 |
| Enterprise development – business development support | 3.1 |
| Strategic Initiatives for public benefit | 42.7 |
| COVID-19 support | 22.6 |
| Civil unrest support | 10.8 |

### Financial inclusion and literacy

We contribute to a more inclusive economy and societal financial wellness by developing affordable, needs-based financial products delivered through innovative and convenient channels. This is supported by consumer education and financial literacy training. We use various communication channels, including ATMs, short message services, face-to-face exchanges, and digital platforms to educate customers on managing the costs of everyday banking products. A diverse set of transactional, savings, lending and insurance products meet the needs of the entry-level market. These include offerings such as Group Savings and PEP Money (South Africa), Atlas (Ghana), Motshelo (Botswana), JUMO (Ghana, Uganda and Zambia), Timiza (Kenya), Tigo and JUMO (Tanzania).

### Digital solutions acting as a force for good

Absa Life is has offered free accidental death cover for over 200 000 customers who downloaded our Banking App. This is followed by customer engagement and education campaigns regarding the value of life cover. We increase access to financial services as customers buy additional life insurance cover from the increased awareness and understanding.

Our consumer financial education empowers individuals to make informed choices through responsible financial management while improving the broader economic inclusion of citizens. In South Africa, 32 639 (2020: 52 246) beneficiaries received consumer financial education, with social distancing impacting the ability to provide face-to-face training.

### ReadytoWork

Africa remains a continent filled with opportunity, with almost one billion young people under 35. However, young people on the continent continue to face enormous challenges in realising their possibility. Africa's youth constitute 60% of the continent's unemployed population, with 30–50% holding precarious employment positions with no prospect of secure jobs. In line with our focus on education and youth employability, we have now taken this support a step further through the **ReadytoWork app** – a vehicle to deliver the ReadytoWork Programme to young people between 18 and 35. A total of 20 620 participants (2020: 20 914) are active on the programme.

The Absa ReadytoWork app offers users the following benefits:

- Grants access to the programme via a dedicated mobile app
- Offers the opportunity to connect to a community of other job seekers, which, additionally, facilitates networking

- Provides valuable resources such as a CV template and access to previous ReadytoWork webinars
- Connects users to the leading recruiters in their country.

*https://www.absa.africa/absaafrica/citizenship/ready-to-work/*

### Cybersecurity Academy for the visually impaired with the Hein Wagner Academy

In partnership with the Hein Wagner Academy, we launched South Africa's first cybersecurity academy for the visually impaired to develop marginalised, unemployed youths in a globally scarce skill.

As part of this initiative, selected students received a full scholarship to the Absa Cybersecurity Academy for the Blind based in Worcester, Western Cape, covering all fees – from tuition, specialised learning technologies, accommodation, to food and travel expenses. Each student received a monthly stipend during the two-year programme.

The initiative aims to expand the net of socioeconomic inclusion for bursaries, especially to those living with disabilities who are so often underserved. It is aligned with our skills development strategy, which aims to build a scarce and critical capability.

**Diving deeper:** 2021 ESG Report

**Solar solution for Tomi's**
**Absa cybersecurity academy**

## Focus on affordable housing

We continue to play an active role in the affordable housing market by providing relevant and appropriate financial solutions to investors, developers and the communities we serve. We offered home loans to 7 932 (2020: 5 308) affordable housing customers to the value of R4.3 billion (2020: R2.8 billion). As part of our home loan offering, our borrower's education programme informs customers on all aspects of home buying and home ownership. 9 084 (2020: 7 160) customers participated in the programme, delivered virtually to support social distancing. We supported 127 (2020: 143) customers to access the South African government's Finance-linked Individual Subsidy Programme. To enable the development of and/or investment in affordable units, we have provided finance in excess of R8 billion in the past six years. Our offering includes social housing, which involves providing finance to facilitate more affordable rentals.

Moreover, we have worked with the South African Department of Human Settlements and local authorities over the past seven years on projects delivering approximately 5 000 homes in Gauteng and the Eastern Cape (Witbank, Mogale City, Olievenhoutbosch and Thornhill). We will continue working with government towards delivering further houses. The project to deliver 580 homes in Pienaarsrivier was completed in 2021. Our affordable housing loan book grew to R10.3 billion in 2021 (2020 R9.8 billion).

### Morgan Stanley Capital International (MSCI) Real Estate Index

In 2021, Absa Commercial Property Finance renewed its MSCI Real Estate Index sponsorship in South Africa. The MSCI Real Estate Index includes a sub-index for residential property, incorporating a large proportion of institutionally held affordable housing assets. As housing is a critical sector for the South African economy, we see this initiative as having the potential to attract additional private and institutional capital, which will assist in alleviating housing shortages, and draw many more South Africans into the formal economy – helping bring their possibilities to life.

### Casa Real

Absa Bank Mozambique and Casa Real, an affordable housing company in Beira supported by the Dutch and Swedish governments, worked together to design affordable housing payment terms that make home ownership a reality. Absa and Casa Real signed a five-year memorandum of understanding in 2019 with the intent to find ways that unlocked housing credit to ordinary families by de-risking the loan for the bank. In this model, Casa Real lets the home to a client who has the intention to buy for a period of up to three years. The rent is reserved to enable the client to use it for a mortgage loan as a lump sum down payment. This allows the deposit to be paid, bringing the bank's exposure to an acceptable level and demonstrating the client's creditworthiness, which then, in turn, provides assurance to the bank that the client is at low risk of defaulting. Together, these factors help the bank set an interest rate that makes the mortgage affordable.

## Promoting gender equality and empowerment

Absa is committed to advancing gender equality in policy and practice. We have a zero-tolerance approach towards gender-based violence and femicide (GBVF).

To address this critical need, Absa has committed to supporting South Africa's National Strategic Plan on GBVF by contributing R10 million towards the newly established GBVF Private Sector Response Fund. The fund will mobilise resources to enable scalable programmes, targeting prevention and response to GBVF across South Africa. We are offering basic marketing activities, as well as supplying free banking services for the first 12 months.

Since the inception of the GBVF Private Sector Response Fund in 2021, the Fund has received R200 million in pledges. The first tranche of R69 million was paid to 110 qualifying, high-impact community-based and intermediate organisations. Initiatives implemented by the selected grant partners will impact women, children, the LGBTQIA+ community, and other vulnerable groups. Based on the selected organisations' implementation targets, as many as 6.1 million women, 383 000 children, 76 700 people living with disabilities, and 51 000 youth will benefit from the coordinated programmes and strategies.

This support builds on various initiatives undertaken by the Group to promote gender equality, working with men and women in our communities to shift mindsets and help break the cycle of violence through training interventions; engaging in dialogue with Absa staff to ensure meaningful, fit-for-purpose policies, processes, and approaches; supporting platforms that profile and raise awareness, such as the Gender Mainstreaming Awards; and collaborating with multiple institutions to ensure a portion of public procurement spend is earmarked for women-owned businesses.

### Supporting vulnerable communities

As the pandemic continues to wreak havoc, the need to support vulnerable communities and augment the public health response remains crucial. In light of the socioeconomic impact of the pandemic, it is imperative that increased focus be given to protecting livelihoods and prioritising initiatives that sustainably address the immediate needs of the community.

We have leveraged both existing relationships and new partnerships to continue to support communities effectively and more sustainably. We provided food relief, supported various COVID-19 public health campaigns, provided relief to civil unrest victims and supported informal trader and micro enterprises to address loss of income post-pandemic, comprising a total investment of R22.9 million in 2021.

**Diving deeper:** 2021 ESG Report

# Natural capital

**Natural capital** refers to all renewable and non-renewable environmental resources and processes that enable our business activities, thereby supporting our ability to create value in the short, medium, and long term. Included in our assessment of our natural capital is our aim to improve the manner in which we consume natural capital over time.

## Related material matters

**36** Climate change and the green transition
**37** Regulatory change

## Strategic response

**41** An active force for good in everything we do

## Contributing to SDGs

SDG 7 | SDG 8 | SDG 13 | SDG 15

Environmental risks dominate both the short-term and long-term risk outlooks of the 2022 World Economic Forum Global Risk Report, including biodiversity loss, climate action failure, extreme weather, human-made environmental disasters, natural disasters, and water crises. These, in turn, will continue to have a knock-on impact on economies, productivity, property, infrastructure, food security, health and sustainable human settlements.

Since becoming a founding signatory of the UN Environment Programme Finance Initiative's PRBs in September 2019, we have made several strides in dealing with climate change. Key developments in 2021 include:

- Established a Sustainability Principal Risk Framework in August and re-published our Group Sustainability Policy under it
- Published an Environmental and Social Risk standard for lending, re-published our coal financing standard in June, completed an oil and gas financing standard in September 2021
- Continued to roll out an environmental and social management system in seven ARO countries
- Completed a climate change physical risk assessment of our agriculture and real estate lending with the Council for Scientific and Industrial Research and Zutari Engineering Consultants
- Started measuring the indirect emissions within key lending books to set scientific Group targets.

As part of elevating ESG within the Group's re-anchored strategy, being an active force for good in everything we do includes setting an ambitious net zero carbon emissions target. More details will be provided in our May 2022 TCFD report.

## Absa's portfolio exposure

Intensifying climate change impacts mean banks must better manage climate-related risk within their portfolios. We support the goals of the Paris Climate Agreement and have made strides in aligning with the TCFD recommendations to provide decision-useful information to investors, lenders, and insurance underwriters regarding our most material climate-related risks and opportunities.

As our climate-related risks exist predominantly in our lending activities, we are committed to disclosing metrics that capture the potential impact of climate change risks and opportunities within our loan portfolios. We provide the details of our direct footprint, although the climate-related risks and opportunities in this regard are less significant.

The sectors below are those we believe have elevated climate-related risks, although a range of vulnerability exists within each sector. Our monitoring and reporting of exposures to sectors with elevated climate risk will improve and become more granular as our approach to climate change risk management evolves, aligning further with the TCFD recommendations. We provide three viewpoints – reporting on climate-sensitive sectors, high-emissions sectors, and our exposure to fossil fuels. The following tables show our gross loans and advances at a Group level at 31 December 2021.

On aggregate, climate-sensitive sectors, as identified by the United Nations Environment Programme, constitute 50% of our total gross loans and advances. However, excluding our sizeable real estate book, which is predominantly retail home loans, climate-sensitive sectors comprise 15% of our total loans, with our well-diversified agriculture and manufacturing portfolios constituting the most significant components at 5% and 4%, respectively.

| | Loans (R billion) | Percent of total (%) | Physical risk | Transition risk |
|---|---|---|---|---|
| Real estate | 376 | 35.1 | ● (Medium) | ● (Medium) |
| Agriculture | 55 | 5.1 | ● (High) | ● (High) |
| Manufacturing | 42 | 3.9 | ● (Medium) | ● (Medium) |
| Transport and logistics | 26 | 2.4 | ● (High) | ● (High) |
| Electricity, gas and water supply[1] | 7 | 0.7 | Risk rating varies between medium and high | |
| Mining and quarrying | 15 | 1.4 | ● (Medium) | ● (High) |
| Construction | 12 | 1.1 | ● (Medium) | ● (Medium) |

[1] Excluding renewables

Medium rating – ● High rating – ●

## High-emission sectors

Sectors with generally high emissions account for 8% of our total loans, with the manufacturing sector the largest at 4%.

| | Loans (R billion) | Percent of total (%) |
|---|---|---|
| Manufacturing | 42 | 3.9 |
| Transport and logistics | 26 | 2.4 |
| Electricity, gas and water supply[1] | 7 | 0.7 |
| Mining and quarrying | 15 | 1.4 |

[1] Excluding renewables.

## Fossil fuels

At R9.7 billion, fossil fuels comprise 0.9% of our total gross loans, with oil the most significant component.

| | Loans (R billion) | Percent of total (%) |
|---|---|---|
| Oil | 6.2 | 0.6 |
| Coal | 2.9 | 0.3 |
| Gas | 0.6 | 0 |

# Climate change and renewable energy opportunities

The significant financing requirements for the energy transition and the development of resilient infrastructure requires access to capital markets, bank debt and wider funding solutions, providing revenue pools that are projected to grow over time.

## Renewables

We support the renewable energy sector, offering strategic advice on and facilitating access to finance for wind, solar, geothermal, waste and hydro-electric energy.

Our renewables loans at 31 December 2021 amounted to R20.5 billion, or 1.9% of our total Group loans. Consequently, renewables constituted 67% of our total energy funding. We strongly support renewable energy and clean technology as solutions to the energy transition and are the largest funder of renewable energy in South Africa by megawatts financed.

Significant transactions in which Absa was involved in 2021 included:

## Multilateral Investment Guarantee Agency (MIGA)

To unlock financial resources for further growth, Absa secured a R7.9 billion (USD497 million) guarantee with MIGA, a member of the World Bank Group. MIGA only supports investments that are developmentally sound and meet high social and environmental standards. Notably, Absa was the first African banking group to enter this type of guarantee transaction.

Guarantees help protect Absa against risks related to the mandatory capital reserves that Absa and other banks must hold with central banks. The guarantee serves to free up financial capacity, enabling Absa's subsidiaries to provide additional sustainable financing for corporates and small and medium-sized businesses, as well as projects with climate co-benefits, that is, beneficial outcomes from climate action that are not directly related to climate change mitigation (such as the creation of green jobs). The climate finance component of this project is significant, and Absa Bank in Kenya and Mauritius will lend R5.2 billion (USD325 million)[1] to support new climate finance transactions. The guarantees are valid for as long as 15 years and apply to Absa's subsidiaries in Ghana, Kenya, Mauritius, Mozambique, Seychelles, Uganda and Zambia.

## Green bond

We partnered with the IFC, a member of the World Bank, to launch Africa's first certified green loan in accordance with the Green Loan Principles. The R2.4 billion (USD150 million)[1] green loan provided by the IFC supports the environmental sustainability pillar of our strategy. The loan proceeds will be used to refinance a portion of the renewable energy projects on our South African balance sheet. In addition, they will create capacity to grow our climate portfolio and expand our support of renewable energy projects essential to growing South Africa's green economy.

Being a founding signatory to the UN Principles for Responsible Banking, the loan aligns with our commitment to contribute to the development of a robust and sustainable climate finance market in South Africa that, in turn, will underpin government's strategic objective of reducing greenhouse gas emissions by 42% by 2025 and diversifying its electricity production to reduce its reliance on coal by 2050.

The certification linked to the transaction speaks to our transition towards international environmental and social best practice. Furthermore, establishing a partnership with the IFC unlocks several other strategic funding opportunities.

## Renewable Energy Independent Power Producer Procurement (REIPPP) Programme

The REIPPP Programme is regarded as one of the most significant contributors to South Africa's shift towards a low-carbon economy. It supports the country's commitment to reducing carbon emissions in line with the 2015 Paris Accord and the 2019 Energy Integrated Resource Plan goal to diversify energy resources and reduce the country's reliance on coal. The renewable energy technologies supported include wind, solar photovoltaic (PV), concentrated solar power and biomass. The projects contribute significantly to energy generation, environmental sustainability and economic growth and development by benefitting local communities and businesses during the various construction phases and beyond.

Of the 92 projects that Absa is involved in, 33 successfully reached financial close during the year and are now in the operational phase.

During 2021, Absa participated in refinancing the Bokpoort parabolic trough concentrated solar power project.

[1] Converted to ZAR at 31 December 2021 spot rate.

In addition, Absa supported several bidders for the fifth procurement round under the government's REIPPP programme. Of these, 21 projects with a total capacity of 2 274MW have been selected as preferred bidders, with financial close expected to occur during 2022. The technologies include 1 524MW of wind power and 750MW of solar PV power.

### Redstone project

At the South African National Energy Association annual conference 2021, themed Unlocking Energy Sustainability in Africa, our client, ACWA Power, was announced as the winner for the Redstone Concentrated Solar Power (CSP) Project under the project category, Leading the way in the energy sector. The award recognises specific projects that have contributed significantly to the South African Energy environment or brought international credibility to South Africa. CIB acted as a mandated lead arranger for this R11.7 billion project based in the Northern Cape. The Redstone CSP Project is a landmark transaction under the REIPPP programme of South Africa and for tower CSP technology. The project's strategic importance lies in its contribution to the success of the Department of Mineral Resources and Energy's REIPPP Programme, as well as in its success in attracting a significant Foreign Direct Investment, validating the bankability of a key renewable technology against the backdrop of a significant sovereign rating downgrade for South Africa.

### African Rainbow Energy and Power (AREP) Fund

In partnership with African Rainbow Energy and Power, the AREP Fund was established as the leading black-owned renewables investment fund in the South African market. This collaboration will result in a platform boasting 31 renewable assets, with an approximate value of R6.5 billion. AREP made an initial investment of assets covering wind, solar photovoltaic and biomass projects with an installed capacity of over 700 megawatts of renewable energy. Absa made a R500 million equity investment into the fund and will transfer up to R5 billion (31 December 2021: R1.4 billion) of our existing renewable energy assets, cementing it as one of the largest and most diverse independently owned energy businesses in South Africa.

The fund's establishment allowed for participation in the REIPPP Programme round five bids and, more broadly, expanded the pool of funding available for renewable energy developments in South Africa as the country is accelerating its plans to expand and diversify its energy base through the REIPPP. The private sector is simultaneously expanding its energy supply. This is an essential step for the South African economy, which aims to source reliable and cost-effective renewable energy to drive growth and employment.

Our participation in this initiative underscores our commitment to support renewable energy development and enhance the green economy as part of our sustainability agenda. Renewables are a vital part of Absa's sustainability strategy, and our target is to finance more than R100 billion in ESG-related projects by 2025.

## Globeleq refinancing

Absa acted as sole arranger and underwriter for the re-financing of three renewable energy projects which closed during the first round of South Africa's renewable energy program.  Based on the historical performance of these projects, which included two wind farms and one solar PV project, we assisted the client to upsize the project debt to R5.2 billion. The transaction resulted in a release of value to shareholders and a reduction in tariff for  the national utility (Eskom) and, ultimately, to consumers in South Africa. The tariff reductions will save the national utility more than R1 billion across the three projects over the remaining 12-year term of their power purchase agreements. This transaction was the second refinancing of renewable assets under the Department of Mineral Resources and Energy's Independent Power Producer Office Refinancing Protocol. The transaction demonstrates Absa's ongoing commitment to financing clean energy and the acceleration of investments that make a sustainable impact on the communities we serve.

### Solar Project

We are the account bank and security agent for the first Globeleq renewable energy project in Mozambique. The initiative will contribute to the government's Energy for All strategy, aiming to enable universal energy access by 2030. The R511 million (USD32 million) project is located in the Tetereane district of the city of Cuamba, in the Niassa province. It constitutes the first independent power producer project in Mozambique to integrate a utility-scale energy storage system, including upgrading the existing Cuamba substation. Electricity will be sold through a 25-year power purchase agreement with Electricidade de Moçambique. More than 100 jobs will be created during the construction phase of the project and 10 in the operational phase. It includes a community development plan that will allocate 1% of its revenues to support the municipality's development.

## Green mortgages

The demand for new buildings presents a unique opportunity to encourage movement into a low-carbon and resource-efficient future by developing responsibly and incorporating energy-efficient design and construction strategies. Absa is committed to creating customer-centric products and recognises that sustainability is a priority for the Group and the customers we serve.

The Absa Eco Home Loan, launched in partnership with Balwin Properties, makes buying and owning a green home possible for more South Africans. This finance solution offers competitive rates for Excellence in Design for Greater Efficiencies (EDGE) certified properties. The EDGE standard is set at a minimum of 20% reduction across energy consumption, water and embodied energy. In this way, Absa can support the development of buildings that are greener and lower the costs of running a household and therefore have a direct impact on property owner cash flows.

The Absa Eco Home Loan has demonstrated how collaborating with developers can help create innovative solutions that enable home ownership in South Africa while supporting a more sustainable environment for all.

## Advocacy and awareness

Customer education and awareness are essential components of our approach to driving renewable energy. We shifted from face-to-face customer education and awareness-raising engagements to participating in online events, including the Sustainability in Manufacturing event, Smart Mobility Week, Green Building Council South Africa conference and other energy-related virtual events. Furthermore, we were a lead sponsor of the Solar Power Africa Conference. We sought to contribute our insights by publishing a battery short report, an electric vehicle short report and thought leadership articles on the renewable energy sector. We have introductory research available to customers on seven renewable energy technologies, as well as face-to-face training initiatives. Internally, we ran 25 training sessions around renewable energy (and the funding thereof) and enhanced digital training by making four training modules available.

As a South African Photovoltaic Industry Association member, we proactively engage and collaborate on topics seeking to advance the industry. We continued to provide input into the Green Cape and the Council for Scientific and Industrial Research, and we worked with Sustainable Energy Africa to promote the adoption of rules and regulations that are supportive of the small-scale embedded generation sector.

We continually refine our strategy to support affordable and clean energy through propositions and strategic partnerships that can unlock opportunities for cross-collaboration across the bank and in the industry.

Through our engagement with employees and clients, we noted the need for educational training to enable a base-level understanding of renewable energy technologies. We therefore introduced a quarterly newsletter, hosted webinars and published articles, case studies, testimonials, research studies and podcasts to help meet this need. Moreover, we provided training to eight councils on solar PV and energy efficiency in manufacturing. Our frontline and credit employees attended 24 solar PV training sessions, and 143 employees attended digital solar PV training.

## Direct environmental impact management

While our direct environmental footprint is significantly smaller than our indirect impact through lending activities, we disclose our greenhouse gas (GHG) emissions and energy use.

**Diving deeper:** Details of our materials and water usage and our effluents and waste are disclosed in our 2021 ESG Report

We are targeting a 51% reduction in carbon emissions by 2030 against the 2018 baseline, with an in-year targeted decrease of 3%. In 2021, we achieved a 1.9% decrease in carbon emissions, resulting in an overall 35% reduction. Our operational footprint is impacted by building occupancy and business travel. Since the COVID-19 lockdown restrictions were imposed, we experienced a significant decline in our Scope 2 and 3 emissions due to most of our employees working remotely and curbing business travel.

We are targeting a 30% reduction in energy consumption by 2030 against the 2018 baseline. This aim will be achieved by driving efficiency, along with internal behaviour and technology change. In 2021, we achieved a 0.3% reduction against a 3% reduction target (32.3% reduction against the baseline).

| Targets | Year-on-year change | Change from baseline | 2030 target (2018 baseline) |
|---|---|---|---|
| Energy reduction | ▼ 0.3% | ▼ 32.3% | 30% reduction |
| Carbon reduction | ▼ 1.9% | ▼ 35% | 51% reduction |
| Water saving[1] | ▼ 3.7 million | ▼ 14.6 million | 100 million litres saving |
| Waste recycling[2] | ▼ 64.8% | ▼ 57% | 80% increase in recycling |
| Paper[2] | ▼ 27.2% | ▼ 57.4% | 50% reduction |
| Renewable energy | 0% | 0% | 10% increase |
| Travel reduction | ▼ 59% | ▼ 82.1% | 20% reduction |
| Certified green spaces | ▲ 1.0% | ▲ 18.1% | 33% increase |
| Carbon offsets | 0% | 0% | 100% increase |

[1] Baseline not yet established.
[2] South Africa only.

## Biodiversity

We have played an active role in the United for Wildlife Financial Taskforce and the South African Anti-Money Laundering expert working group on the illegal wildlife trade. We were a lead participant in a specific working group established under the United for Wildlife Financial Taskforce, which developed a bespoke illegal wildlife trade risk assessment template that the global financial industry can utilise as part of their broader risk management framework. The illegal wildlife trade risk assessment, as well as the output produced by the South African Anti-Money Laundering expert working group, strengthen our ability to detect and disrupt animal poaching and illegal wildlife trafficking across all jurisdictions where we have a presence.

Furthermore, we are a regular participant at the United for Wildlife webinar series. United for Wildlife, in partnership with Focused Conservation, developed the webinar series for United for Wildlife Taskforce members and partners. The series challenges current ways of thinking about global wildlife trafficking and provides actionable insights into trends relevant to financial institutions, transport companies and governments.

### Environmental awareness campaigns

Through virtual sessions aimed at celebrating World Water Day and World Environment Day, we reached all our business functions in South Africa, including cross-border operations. Speakers included experts from Johannesburg Water, Rand Water, the Department of Forestry, Fisheries, and the Environment, the Botanical Society of South Africa, the South African National Biodiversity Institute and our in-house experts. These conversations covered topics that directly affect our operations, our employees as citizens and our continent, such as water scarcity, ecosystem restoration, energy shortages and environmental protection. In certain instances, communication continued at a regional level. For example, in the Eastern Cape, a Water Crises Management committee was established, and Water Ambassadors were chosen to deliver weekly communications on water scarcity, dam levels, regional restrictions, and saving initiatives to ensure business continuity and resilience in the affected Absa facilities.

United for Wildlife was created in 2012 and has brought together conservation organisations, governments and global corporations to protect endangered species, including elephants, rhinos, tigers, and pangolins.

The commitments aim to help the private sector fight the illegal wildlife trade. They focus on:

- Securing information-sharing systems for the transport industry to receive credible information about high-risk routes and methods of transportation
- Developing a secure system for sharing information about suspected illegal wildlife trade from the transport sector to relevant customs and law enforcement authorities
- Notifying relevant law enforcement authorities of cargoes suspected of transporting endangered wildlife and related products illegally and, where possible, enabling authorities to refuse to accept or ship such cargoes.

# Outlook

**Our strategy and business model remain resilient to external market shocks. As a result, we are cautiously optimistic about winning back momentum lost during 2020 due to the global pandemic.**

## Economic momentum

### Sub-Saharan Africa

Economic recovery from the pandemic is expected to be slow and uneven, and low vaccination rates suggest a further risk of pandemic-related disruptions to growth momentum in 2022. Improvements in fiscal management and governance will be vital to a sustainable future. We expect real average economic growth of 5.3% in 2022 in our ARO countries underpinned by the improving global backdrop, rising commodity prices, a renewed focus on infrastructure investment, multilateral support, as well as monetary and fiscal policy actions. Higher global oil prices and continued pressure on food prices underpin rising inflation rates in many markets. However, for now, we expect most central banks to continue to focus on supporting economic growth in the near term, with policy tightening likely to commence deeper into 2022. While we believe significant moves in ARO currencies (vs USD) are behind us, most currencies remain vulnerable to further weakness. Economies dependent on tourism, such as Seychelles, Mauritius and Botswana, are likely to recover slower than the more diversified East African countries.

### South Africa

COVID-19, as a weight on the economy, is abating as South Africa has adopted a fairly light-touch approach to lockdowns, and Omicron is proving to be less pathogenic than anticipated. However, the pandemic has left lasting scars on many facets of the economy, including increased levels of unemployment, heightened debt, impaired confidence, and frazzled social cohesion. Therefore, the focus going forward will be on the economy's response to the withdrawal of exceptional monetary accommodation globally and the so-far glacial pace of necessary reforms in South Africa, especially in the critical area of electricity supply.

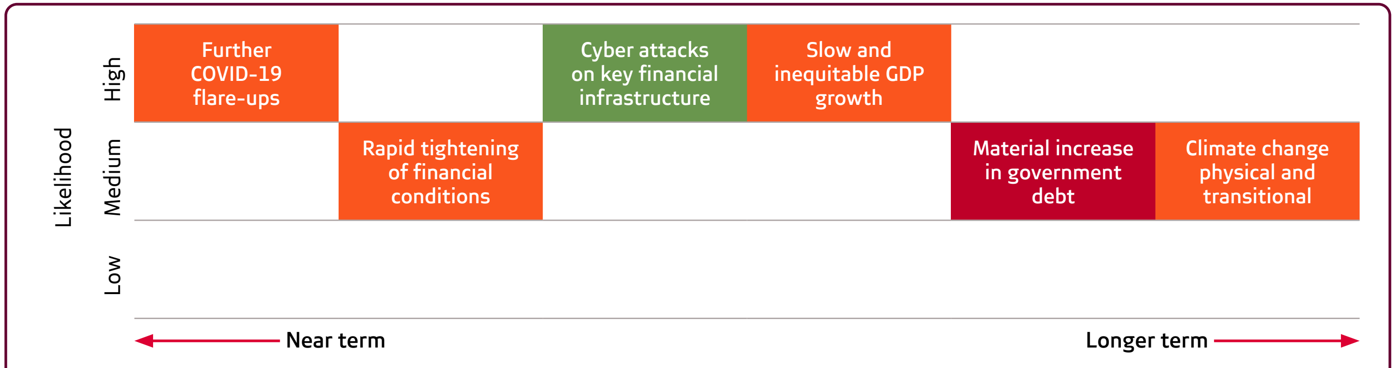
Without a quicker and broader reform effort, South Africa is unlikely to achieve positive per capita GDP growth and alleviate high unemployment, poverty and inequality. This could lead to further political instability and social unrest, as seen in South Africa during 2021. Furthermore, without more substantial growth, public indebtedness will likely continue to rise and credit ratings to weaken over the long term.

We forecast GDP growth for 2022 at 2.1%, while the medium-term growth trend will likely average 1.7%. Headline consumer price inflation is likely to remain elevated, particularly in the first half, and we expect the Reserve Bank to continue raising rates in a measured manner, more slowly than interest rate markets are pricing in. The SARB increased the policy rate by 25bps at the November 2021 and January 2022 Monetary Policy Committee (MPC) meetings, somewhat ahead of the Absa forecast. The market is currently pricing in more aggressive rate hikes. Absa's baseline projection forecasts a 50bps in tightening during 2022 and a further 75bps in 2023.

| Baseline scenario for Absa's top five presence countries | 2022 | 2023 | 2024 |
|---|---|---|---|
| **South Africa** | | | |
| Real GDP (%) | 2.1 | 1.7 | 1.7 |
| CPI (%) | 4.8 | 4.3 | 4.6 |
| Average repo rate (%) | 4.5 | 5.3 | 6.5 |
| **Botswana** | | | |
| Real GDP (%) | 5.2 | 4.8 | 3.8 |
| CPI (%) | 4.5 | 4.6 | 2.8 |
| Average repo rate (%) | 4.3 | 4.8 | 5.0 |
| **Ghana** | | | |
| Real GDP (%) | 5.5 | 5.3 | 5.1 |
| CPI (%) | 9.3 | 10.4 | 11.6 |
| Average repo rate (%) | 15.5 | 16.0 | 17.5 |
| **Kenya** | | | |
| Real GDP (%) | 5.6 | 5.1 | 5.2 |
| CPI (%) | 6.2 | 4.4 | 4.9 |
| Average repo rate (%) | 7.5 | 8.0 | 8.0 |
| **Mauritius** | | | |
| Real GDP (%) | 10.3 | 5.6 | 4.8 |
| CPI (%) | 2.8 | 4.1 | 2.2 |
| Average repo rate (%) | 2.9 | 3.4 | 3.9 |

Source: Absa Economic Research Q1 2022 Quarterly Perspectives.

The SARB's risk and vulnerability matrix, below reflects primary risks to financial stability over the medium term, after considering mitigation measures.



Source: SARB

Based on these assumptions, and excluding further major unforeseen political, macroeconomic or regulatory developments, the Group's guidance for 2022 is updated as follows:

- We expect high single digit revenue growth, driven by improved non-interest income growth, in part due to lower COVID-19-related life insurance claims. We expect high single digit growth in customer loans and deposits, while our net interest margin will benefit from rising rates. The banking book net interest income sensitivity for a 1% rise in rates is about R600 million, post the structural hedge.
- We expect mid-single digit operating expense growth, resulting in positive operating JAWS and high single digit growth in pre-provision profits.
- Our credit loss ratio is likely to increase, although remain in the bottom half of our through-the-cycle target range of 75 to 100 basis points.
- Consequently, we expect our RoE to be similar to 2021's, and we intend to work towards an RoE of over 17% by 2024. Clearly this is heavily dependent on global macro factors.
- Lastly, our Group CET1 ratio is expected to decline, but remain above 12%. We aim to increase our dividend pay-out ratio to 50% in 2022.

## Regulatory change

During the past year, the Corporation for Deposit Insurance (CoDI) has made significant progress with the development of a deposit insurance scheme (DIS) for South Africa, in consultation with the World Bank and the banking sector. By protecting the covered deposits in all banks, the DIS can contribute to developing a less concentrated banking sector while supporting financial inclusion and transformation of the sector. CoDI will be officially established as a wholly owned subsidiary of the SARB since the promulgation of the Financial Sector Laws Amendment Act. Similarly, we have seen global developments of deposit insurance within the following countries: Kenya, Rwanda, Tanzania, Uganda, Czech Republic, Norway and Hong Kong.

South African parliament passed the long-awaited Financial Sector Laws Amendment Bill, which was signed into law as the Financial Sector Laws Amendment Act on 28 January 2022. The Act forms part of the Financial Sector Regulation Act of 2017, or "Twin Peaks", regulatory reforms introduced in 2011, covering the financial sector's conduct and transformation. The primary purpose of this Bill is to address banking risks, failures and weaknesses and mitigate the impacts of a financial crisis. More importantly, it seeks to address the shortcomings of the current financial legislation, partly necessitated by the lessons learnt from the 2008/09 global financial crisis and domestic experiences, and to enhance the SARB financial stability mandate and expand its objective for depositor protection. The Act proposes the introduction of a new chapter that will establish a framework for the resolution of designated institutions and a deposit insurance scheme. This aims to create a resolution framework to ensure that the impact of a failure by a bank, or systemically important financial institution, is managed in an orderly manner. The Bill proposes that the resolution process takes place under the management and control of the SARB, which will be the Resolution Authority.

It further proposes the establishment of a deposit insurance scheme, which includes a Corporation for Deposit Insurance and a Deposit Insurance Fund, as well as the creation of a creditor hierarchy to ensure depositor protection in the event of liquidation and adherence to the "no creditor worse off" principle.

Depositor insurance for South African banks is expected to come into effect in the latter part of 2022. The charge against net interest income associated with this insurance has been estimated at R66 million in 2022 and R273 million for the 2023 to 2024 financial years.

The introduction of an additional layer for loss absorption subordinated to senior debt and senior to Tier 2 of approximately R2 billion in 2022, R7 billion in 2023 and a further R10 billion in 2024 will result in additional funding costs of roughly R4 million in 2022, R40 million in 2023 and R100 million in 2024.

Regulatory changes are being implemented to ensure more standardised and consistent risk-weighted assets calculations across the banking industry. Implementation timelines for the new regulations are divided across 2023 (R-37 billion, reflecting lower credit and operational risk) and 2024 (R+23 billion, mainly reflecting market risk), resulting in a net expected risk-weighted assets reduction of R-13 billion. Our financial prospects discussed earlier reflect these expected regulatory changes.

The Zondo Commission has published Part 1, 2 and 3 of its report, which exposes corruption in both the public and private sector. The fourth part of the report is expected to include a focus on regulatory oversight and the strength of the financial services sector to fight financial crimes. The Banking Sector had already proposed recommendations to the Commission on strengthening of financial crime capability prior to the publication of the reports.

The Financial Action Task Force (FATF) issued its mutual evaluation report on South Africa in October 2021. The report, among its recommendations, proposed further strengthening of regulations, oversight by regulators and capabilities within Banks. The Banking Sector is working with the various role-players to address weaknesses identified by FATF.

Absa seeks to foster positive relationships with our regulators and endeavours to stay close to regulators' policy positions on financial technology. Absa is a key participant in the SARB Intergovernmental FinTech Working Group as it seeks to pilot digital currencies. Similarly, across ARO, Absa remains a trusted partner within their local banking industries with a robust collaborative approach with regulatory bodies in driving sound banking practices and shaping the regulatory frameworks.

Recent regulatory developments point to common themes for regulator focus, including conduct, resilience and financial crime, which Absa, in collaboration with our key partners, continues to evaluate, monitor and respond to. As one of the most innovative and competitive functions of the banking industry, payments remain a significant area of potential operational and financial crime risk and therefore an area of regulatory focus.

Early in 2022, the PA in South Africa issued new guidance related to dividends and bonus payments by financial institutions. It allows banks to pay dividends on ordinary shares and bonuses to executives and material risk takers in 2022 and beyond, noting that payout ratios should be prudent and commensurate with the bank's respective assessments of the current conditions and potential future uncertainty.

# Value created and preserved through strong governance



# Our Board as at 28 March 2022

## Independent directors

1. **Wendy Lucas-Bull** 68

Independent Chairman

*BSc*

Chair: Directors' Affairs Committee

Nine years

2. **Sello Moloko** 56

Chairman-designate

*BSc (Hons) Mathematics, PGCE, Advanced management programme*

Three months

3. **John Cummins** 60

*MBA, BA (Hons)*

Four months

4. **Alex Darko** 69

*MSc (Management Information Systems), FCCA*

Chair: Information Technology Committee

Seven and a half years

5. **Daisy Naidoo** 49

*BCom, CA(SA), MAcc (Tax)*

Six years

6. **Francis Okomo-Okello** 72

*LLB (Hons), Dip (Law), Certified Public Secretary*

Chair: Social, Sustainability and Ethics Committee

Seven and a half years

7. **Ihron Rensburg** 62

*BPharm, MA (Political and Organisational Sociology), LLD (Hons Causa), PhD (International Development Education)*

Two and a half years

8. **Nonhlanhla Mjoli-Mncube** 62

Lead Independent Director[8]

*PgCert (Engineering Business Management), Fellowship in Urban Development (MIT), Masters in Regional and Urban Planning*

One and a half years

9. **Rose Keanly** 63

*BCom (Hons), BSc*

Chair: Group Remuneration Committee[9]

Two and a half years

10. **Swithin Munyantwali** 59

*BSc, LLD, LLM*

Two and a half years

11. **Tasneem Abdool-Samad** 48

*BCom, CA(SA)*

Chair: Group Audit and Compliance Committee

Four years

12. **René van Wyk** 65

*BCom, BCompt (Hons), CA(SA)*

Chair: Board Finance Committee, Group Risk and Capital Management and Group Credit Risk Committees

One and a half years

## Non-executive directors

13. **Fulvio Tonelli** 62

*BCom (Hons); CA(SA)*

Two years

## Executive directors

14. **Jason Quinn** 47

Interim Group Chief Executive Officer

*BAcc (Hons), CA(SA)*

Chair: Models Committee

Five years

15. **Punki Modise** 52

Interim Group Financial Director

*BCom, CA(SA), Masters in Financial Management*

Eleven months

**As at 29 March 2022, Arrie Rautenbach joins the Board as Executive director and Punki Modise, steps down from the Board.**

### Board changes since the 35th annual general meeting

**Additions**
- Punki Modise[1]
- Sello Moloko[2]
- John Cummins[3]

**Status change**
- René van Wyk[4]

**Stepped down**
- Daniel Mminele[5]
- Mark Merson[6]

**Removed (section 71)**
- Sipho M Pityana[7]

### Board changes scheduled for the 36th annual general meeting

**For election**
- Arrie Rautenbach
- John Cummins
- Sello Moloko

**For re-election**
- Rose Keanly
- Fulvio Tonelli
- René van Wyk
- Ihron Rensburg
- Swithin Munyantwali

**Retirement**
- Wendy Lucas-Bull

*Executive Committee member biographies can be found at www.absa.africa*

1 Joined 23 April 2021.
2 Joined 1 December 2021.
3 Joined 15 November 2021.
4 René was an independent director for two years prior to serving as Group Chief Executive Officer between the retirement of Maria Ramos and the appointment of Daniel Mminele. He served a six-month cooling-off period in 2020 and re-joined the Absa Board as a non-executive director on 1 August 2020. He became independent again on 1 August 2021.
5 Resigned as Chief Executive and executive director on 20 April 2021.
6 Resigned 31 January 2022.
7 Removed (in terms of section 71 of the Companies Act) 24 November 2021.
8 Appointed as Lead Independent Director on 8 February 2022.
9 Appointed as Chair of the Group Remuneration Committee on 8 February 2022.

# Our Executive Committee as at 28 March 2022

## Executive directors

1. **Jason Quinn** 47
Interim Group Chief Executive Officer
Chair: Models Committee
ExCo: Five years
Absa: Thirteen years

2. **Punki Modise** 52
Interim Group Financial Director
ExCo: Ten months
Absa: Fourteen years

## Prescribed officers

3. **Arrie Rautenbach** 57
Chief Executive: RBB
Interim Head: People and Culture
ExCo: Six years
Absa: Twenty-four years

4. **Charles Russon** 55
Chief Executive: CIB
ExCo: Seven years
Absa: Fifteen years

As from 29 March 2022, Arrie is the Group Chief Executive Officer, Jason is the Group Financial Director and Punki will be the Interim Chief Executive: RBB

## Balance of the Executive Committee

5. **Akash Singh** 48
Group Chief Compliance Officer
ExCo: Two years
Absa: Eighteen years

6. **Charles Wheeler** 57
Group General Counsel
ExCo: Nine years
Absa: Nine years

7. **Saviour Chibiya** 50
Group Executive: ARO
ExCo: Four months
Absa: Eleven years

8. **Wilhelm Krige** 56
Interim Group Chief Information and Technology Officer
ExCo: Eight months
Absa: Fourteen years

9. **Deon Raju** 44
Group Chief Risk Officer
ExCo: Nine months
Absa: Twenty-three years

## Ex-officio member

**Prabashni Naidoo** 45
Group Chief Internal Auditor[2]
*Ex-officio*
Absa: One year

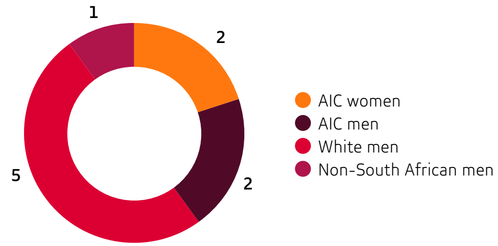
### Changes during the year

**Appointed**
- Saviour Chibiya
- Wilhelm Krige
- Punki Modise
- Deon Raju

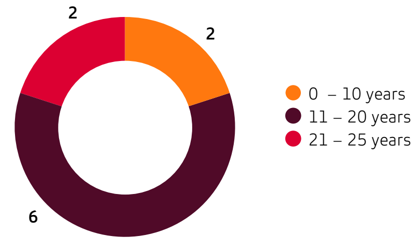
**Resigned**
- Daniel Mminele
- Rajal Vaidya
- Bongiwe Gangeni

*Executive Committee member biographies can be found at www.absa.africa*

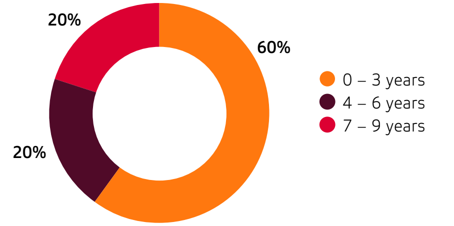
**Diversity**



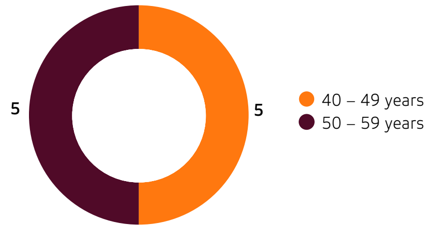

**Tenure at Absa:**
**145 years of combined experience**




**Tenure on the Executive Committee**




**Age**



# Board structure

The Board of directors provides leadership and strategic guidance within a framework of controls designed to assess and manage risk to ensure long-term sustainable development and growth. The Board has ultimate accountability for the performance and affairs of the Group and for ensuring that the Group adheres to high standards of ethical behaviour.

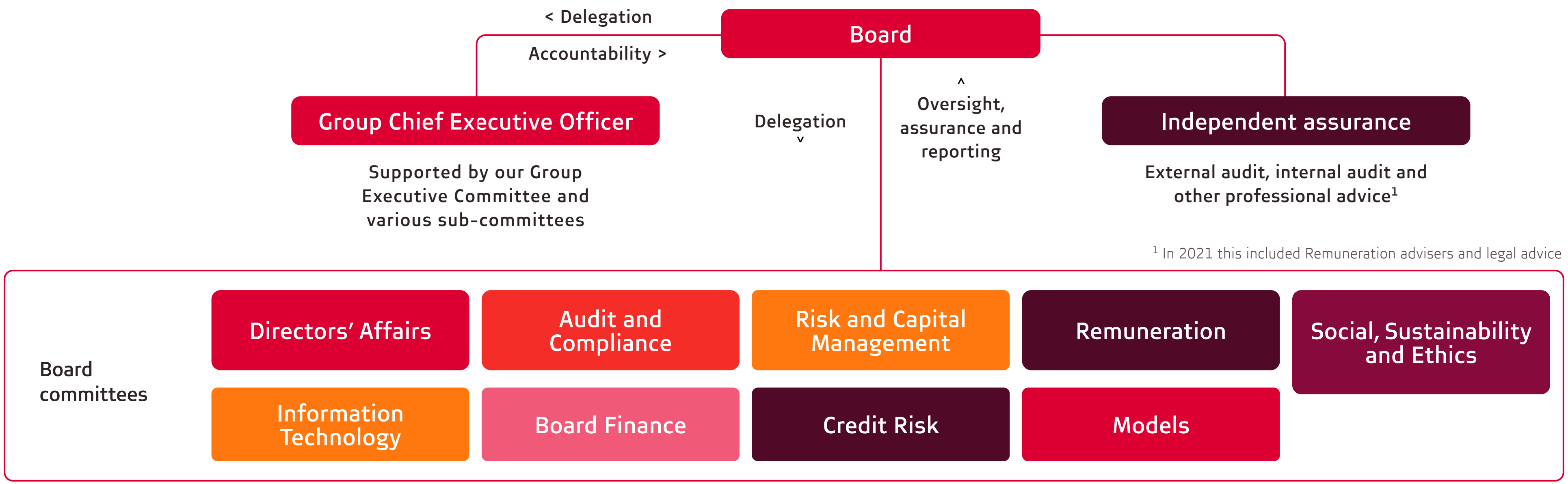
Committees assist in the execution of the Board's duties and responsibilities, with each committee comprising suitably skilled directors and statutory committees having independent non-executive directors as chairs. Each committee has written terms of reference that are reviewed annually and mapped to applicable legislation, regulation and governance practices to ensure relevance and compliance. The key functions of each committee are outlined on pages 105 and 106.

The Board monitors these responsibilities to ensure effective coverage of, and control over, the operations of the Group. Occasionally, the Board requests that directors undertake specific duties, typically as a Board sub-committee, to provide additional focus. During the year, ad hoc committees contributed to areas such as the development of a revised reward framework; the advancement of our force for good strategy; and the Chairman's and Chief Executive's succession processes. Each committee Chair provides written and verbal feedback at Board meetings and the Group Chairman reports back on engagements with the chairs of material subsidiaries. A specific report on the activities of the AFS Group of companies is tabled at least quarterly at the Group Board.

Meeting attendance is an important factor in the Board's ability to discharge its duties and responsibilities, and care is taken in preparing the Board calendar to enable attendance.

If a director is unable to attend a meeting, an apology is recorded and, if possible, he/she makes written or oral contributions ahead of the meeting. We expect, and receive, significant commitment from our Board members:

| | | |
|---|---|---|
| **Number of Board and committee meetings** | **105** | **(2020: 94)** |
| **Attendance** | **99%** | **(2020: 99%)** |




[1] In 2021 this included Remuneration advisers and legal advice

The Group Executive Committee, and its various sub-committees, report to the Board and Board committees in accordance with their respective mandates to ensure the appropriate flow of information from the mandated executive forums to the relevant oversight forums. The executive committees operate under the authority of the Group Chief Executive Officer and implement Board-approved strategies and policies while managing the risk across the Group within the approved risk appetite. These committees report regularly on their execution progress and on risk and compliance matters.

# Board composition

**Approach and policy: The magnitude and complexity of the Absa Group, its strategy and the changing external environment influence our Board's composition. We strive to have an appropriate balance of diversity to ensure robust governance, keen commercial decision-making and strong technical inputs. The Board regards diversity of perspectives at Board level as essential to provide effective oversight over the setting and execution of strategy and the creation and preservation of value for stakeholders.**

We seek to promote diverse mindsets and opinions. Our Board review takes tenure and succession, retirement, resignation, skills, Board evaluation outcomes and regulatory requirements into account.

We have a diverse Board, ranging broadly in age, race, gender, ethnicity, country of origin, culture, educational background, skills, experience and knowledge. This provides a fertile environment for discussion, debate, input, challenge and thoughtful outcomes. The Board is committed to ensuring that we meet our governance, social and regulatory obligations regarding race and gender diversity, taking into consideration the environments and geographies in which we operate. As an African financial services group, the Board recognises the benefits of having members who are from countries outside South Africa. We regularly review our race and gender targets. Other diversity measures, including skills, educational qualifications and age, will continue to be tracked and reported.

As at **28 March 2022**, the Absa Group Board had 15 members. The **size of the Board** is influenced by the demands of a complex banking and financial services industry, our universal banking model and geographic footprint. We expect to increase the Board by a further two members in 2022. The size of the Board allows adequate membership, including appropriate levels of independence, for its nine Board committees, of which all but two are required in terms of the Companies Act and Banks Act and regulations, and endorsed by King IV and the JSE Listings Requirements. The Board size also facilitates succession planning. Our Board should comprise a majority of non-executive directors, of whom the majority must be independent. 80% of our Board is **independent**.

In terms of **skills and expertise**, members must have the highest levels of integrity, a deep understanding of governance, appropriate technical, banking, financial and non-financial knowledge and interpersonal skills.

[1] All African, Indian or Coloured people qualifying for South African citizenship by birth or descent, or people who were naturalized before 27 April 1994.

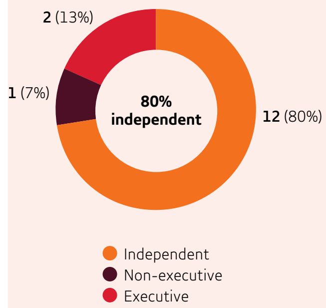
Skills and experience in banking, risk and capital management, technology, commercial and industrial, accounting, legal and human resources, and sustainability are required of the Board as a collective.

In assessing the skills requirements considering the current operating context, our analysis shows that we have numerous members with experience in banking (either on boards and/or as executives), additional specialist technical banking and risk management skills. Furthermore, legal skills are important due to the importance of the South African legal environment to our business. We have appointed one such new NED with banking and risk skillset who is also skilled in the areas of technology and sustainability. We aim to appoint a second NED in first half of 2022. The appointment of a director with the additional legal skillset is a focus for the first half of 2022. All Board members will need to become skilled in the areas of environmental and social sustainability, and climate change. We began bolstering these skills in 2019 through training and deep-dive sessions, and this is a continued focus to ensure a general understanding of these challenges and their ramifications. A focus of our training programme in 2021 was technology, with an emphasis on new technologies, how Absa is dealing with these and the challenges they pose. Several hours were spent over three sessions on these topics.

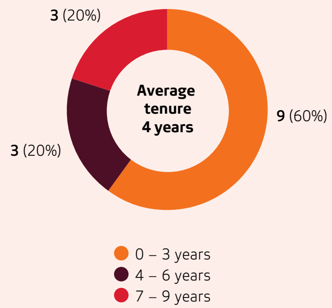
Our targets **for race and gender representation** are set at a minimum of 40% AIC[1] and 30% women. 40% are AIC and 40% of the Board are women.

Within our **tenure** approach, we apply a staggered rotation of Board members to ensure continuity, sufficient knowledge, skills and experience while introducing new expertise and perspectives. Directors serving over nine years are subject to annual re-election and will be classified as non-independent after nine years as per the SARB Directive 4/2018. However, given the SARB Directive, the Board has taken a view that it would only be in exceptional circumstances that a Board member remains beyond nine years. No Absa Board members have had a tenure exceeding nine years.

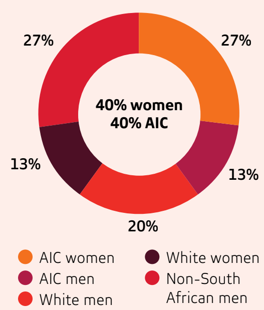
Independence



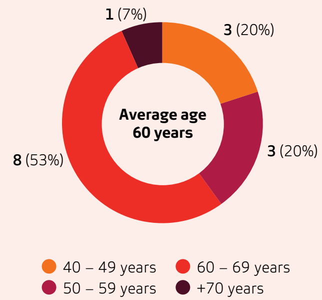

Tenure




Race and gender representation




Age




**Skills and expertise** (Number of Board members)

# Sound governance to protect and enhance value

Sound corporate governance practices are vital for creating and sustaining shareholder value and ensuring that behaviour is ethical, legal and transparent – thereby reducing the risk of value erosion. Our Board is committed to continuously improving our corporate governance principles, policies, and practices by remaining abreast of evolving regulations and best practices. This is further enhanced through engagement with regulators and industry bodies, and through seeking regular feedback from other stakeholders.

We are compliant with all the principles outlined in the King IV Report on Corporate Governance for South Africa, 2016 (King IV). Each year, we focus on maturing and improving our practices, with specific emphasis on resilience, remuneration, governance, sustainability, combined assurance and stakeholder relationships.

We have seen significant progress over the last year in the areas of remuneration, combined assurance and our relationships with our customers, in particular.

The Board is the highest decision-making body for matters of significance to the Group as a whole due to their strategic, financial or reputational implications or consequences. As a major bank, investment manager and insurer in various jurisdictions, we have a significant responsibility to our customers (in particular our depositors) and the public at large to contribute to a stable, secure economy. We are responsible for ensuring continued open, transparent and constructive relationships with our regulators.

Decisions are made in good faith to promote the success of the Group for the benefit of our stakeholders. In doing so, the Board considers, among other matters:

1. The likely consequences of any decision in the long term
2. The interests of the Group's employees
3. The need to foster the Group's business relationships with regulators, suppliers, customers and other stakeholders
4. The impact of the Group's operations on the community and the environment
5. The imperative of the Group to maintain a reputation for high standards of business conduct and ethical behaviour and the need to act fairly in respect of shareholders and other stakeholders.

**Diving deeper:** 2021 ESG Report

In line with our pursuit of best-practice governance, we focus on the four governance outcomes as envisioned by King IV.

## Ethical leadership

The Board sets the tone and leads the Group ethically, effectively and responsibly. In decision-making, individual Board members act with independence but on a consensus basis, with competence, commerciality and challenge, and with the necessary awareness, insight and information. The Board ensures that the Group plays a key role in society as a trusted taker of deposits, contributor to financial markets, lender, major employer, buyer of services, contributor to the local community, taxpayer and skills provider.

## Good performance

The Board is accountable for the performance of the Group, considering the possible positive and negative outcomes of the Group's activities and outputs on the economy, society and the environment in which we operate (see our business model on pages 10 and 11 for more detail on activities, outputs and positive and negative outcomes). Taking these factors into account, the Board approves the strategy and any changes thereto. The Board also monitors the execution of the strategic objectives.

## Effective control

The Board provides guidance to, and oversight of, the management of compliance risk, remuneration, the enterprise-wide risk management, and the related lines of defence that support good governance practices. The Board actively monitors the control environment and adjusts risk appetite and growth objectives.

## Trust and legitimacy

Absa is grounded in the communities within the countries in which we operate. The Board oversees the Group's stakeholder policies and takes a stakeholder-inclusive approach, recognising the need for transparent disclosure and open channels of communication.

### Key corporate governance practices

The following core governance practices are in place:

- Majority independent non-executives
- Lead independent director with clearly delineated duties
- Active, engaged, and diverse Board
- Proactive stakeholder engagement programme
- Annual election of the Audit Committee members
- Annual election of a minimum of one-third of directors by majority vote
- Succession planning and rotation
- Board and committee evaluations
- Key constitutional documents in place
- Fully manned and mandated committees
- Key policies approved and monitored for embedment, including published conflict of interest and director nominations policies
- Regulatory compliance prioritised
- Minimum shareholding requirements for executives
- Malus and clawback provisions
- Annual shareholder vote on remuneration policy and implementation report
- Detailed ESG reporting
- Sufficient time and capacity policy and provisions
- Fit-and-Proper Policy introduced
- Conflict of Interest and Nominations policies published
- Risk management through an Enterprise Risk Management Framework
- Risk appetite set and monitored
- Combined assurance approach
- Solvency, liquidity and going concern status regularly tested
- Capital allocation deliberated and executed
- Liquidity and funding tested and stressed.

# 2021 governance outcomes

## Board objectives reflect the most critical governance focus areas for the year and are directly linked to the strategic ambitions of the Group.

In assessing the Board's delivery against these governance objectives, attention was given to the work of the Board and committees, with a focus on strategic matters and reviews, deep dives into areas of risk and business, and the reports of the Group Chief Executive Officer, Group Financial Director; Chief Risk Officer and the chief executives of customer-facing segments.

The approach considers the extent to which the Board and its committees could engage with, test and challenge management. There is sometimes a delayed correlation between the governance performance and the financial performance outcomes of the Group, and the Board is aware there may be a disconnect between the governance outcomes and shareholders' likely expectations.

The 2021 Board objectives were set, taking into consideration the impact of the COVID-19 pandemic and the related macroeconomic outcomes, as well as business activities and performance. On balance, the outcomes were positive in terms of material progress made and the Board's attention to crucial matters. While significant time was spent discussing the departure of the Group Chief Executive Officer and the Group Chairman's succession process, all scheduled Board and committee meetings were held, with several additional ones being scheduled, as required.

### Our 2021 governance objectives

**Corporate strategy** – There has been a high level of review and oversight, as well as check and challenge, by the Board, especially concerning the Medium-Term Plan refresh in May/June 2021. Progress in terms of strategy continues, even though certain focus areas have changed. A significant strategy update (accelerating momentum) was presented to the Board in October 2021, with the Integrated Plan proposed and approved at the December 2021 meeting. There is a strong level of alignment between the Board's oversight and the financial performance outcomes in the 2021 year. However, it was felt that this objective could not be marked as full achievement given more work to be done in certain key areas of strategy, such as the ARO operating model, our digital journey and sustainability.

Substantial achievement

Strategic overview, page 39.

**Technology** – The Information Technology Committee was provided with regular updates on the environment across the technology estate, covering stability, resilience, regulatory change and transformative digital projects. But work needs to be done regarding the recent data breaches and fraud matters, with lessons learnt compiled and currently being addressed. The most recent matters relate to privileged access. Access in general, and privileged access in particular, and cybersecurity are vital matters of focus for the committee, with the Logical Access Governance programme having commenced in March 2021. The reporting to the committee has matured with greater alignment between the work of management and that of the lines of defence. Further work is to be done on the Group's technology architecture.

Modest achievement

Intellectual and manufactured capital, page 57; King IV outcome – Good performance, page 91.

## Our 2021 governance objectives

**People and culture** – The new People and Culture strategy was presented for discussion with implementation updates later in the year. The 2021 Colleague Experience survey was launched and concluded with an 80% participation rate recorded across the Group (compared to 73% in 2020). Traction is still needed in key areas such as culture, talent management and MyContribution performance management. The outcomes of a comprehensive review of transformation, diversity and inclusion was tabled for discussion at the September 2021 **Social, Sustainability and Ethics Committee (SSEC)** meeting, with more work to be done by management in the business. There has been significant progress on the reward side, particularly regarding fair and responsible pay and the change to the LTIP methodology. There has been greater clarity on the determination of the STI pools and well-structured presentations in this regard. The **Remuneration Committee (RemCo)** and SSEC were instrumental in the fair pay adjustments. The People and Culture score for the Board was, however, negatively impacted by the departure of Daniel Mminele and the chair succession process, both of which resulted in reputational risk for the Group.

Modest achievement

Human capital, page 50.

**Role in society** – Significant work has been done concerning making contributions to appropriate recipients to advance our education and skills development initiatives and COVID-related support. The Group Sustainability Risk Framework and the Group Sustainability Policy were approved at the SSEC, as was an updated Citizenship Policy. Significant progress has been made in terms of ESG reporting (with the disclosures against the PRBs and the TCFD report being welcomed by the market). While Absa has had much success in participating in the latest round of renewables financing, there is work to be done regarding credit extension with a sustainability lens, and a more significant role to be played in the external market (key ministries and the like with suitable alternatives to demonstrate the possibilities of a just transition), and a greater focus on inclusive financing. There is substantial reporting on customer matters to the SSEC, with an uptick in various customer metrics in most Group businesses. The payment relief programmes and further support during the July riots in SA were noted by the relevant committees. Transformation reporting was a regular feature of the SSEC agenda, and the Level 1 B-BBEE outcome was welcomed. Furthermore, the Group's standing has improved in matters pertaining to the Ombudsman, which shows commitment to treating customers fairly.

Substantial achievement

Strategic themes, An active force for good, page 41; Social and relationship capital page 64; Natural capital, page 75.

## Focus areas for the Board heading into 2022

**Corporate strategy** – Oversee the execution of the approved short-term plan for 2022 and the medium-term plan, within the framework of the control environment and having regard to the uncertainties of the macro environment.

**Technology** – Oversee the technology and digital journey of the Group to ensure the consistent provision of services, a safe and secure environment (with a particular focus on information and data protection, and cybe ), an optimised and sustainable customer experience (recognising different needs for our different customers) and sustainable benefits realisation, within the context of an accelerated pace of change.

**People and culture** – Monitor and assess the Group's progress with respect to:

- Diversity and inclusion in all our geographies
- Customer centricity
- Our values and ethical practices
- The continued culture transformation journey
- Talent strategy
- Performance and reward.

**Force for good** – Monitor the Group's role regarding environmental, social and governance matters, with a focus on:

- Inclusive finance
- Environmental sustainability
- A just society
- The Group's contribution to a just transition
- Education and skills development.

We will embed the related activities to more broadly contribute to playing a shaping role in Africa's growth and sustainability.

## King IV outcome: Ethical leadership

**Good conduct is fundamental to guarding against value erosion, thereby supporting the sustainability of the financial services industry and enabling the creation and preservation of value. Good conduct is driven by our daily behaviours and exhibited in our individual and collective actions and decisions. The Board assumes ultimate responsibility for the Group's ethics performance and adherence to human rights principles. This responsibility is delegated to executive management while the Board oversees the various tools, processes and systems used to embed an ethical culture in the organisation.**

The **Board Charter** is the constitution that guides our Board and its committees in their activities and decisions, as well as in their dealings with each other, with management, with our stakeholders and with the Group as a whole. It is designed to guide directors and external audiences on how we approach critical issues within the Group and is aligned with the South African Companies Act, King IV, the JSE Listings Requirements, the Basel Practices on Governance, and the SARB Directive 4/2018. The Charter is further supported by the Group Governance Framework in these areas, more recently, an Engagement Protocols Document which covers, inter alia, the way in which the directors and executives engage with each other. Directors have a responsibility to avoid situations that place, or are perceived to place, their personal interests in conflict with their duties to the Group. A director or prescribed officer and all employees are prohibited from using their position or access to confidential and price-sensitive information to benefit themselves or any related third party, whether financially or otherwise. Where actual or potential conflicts of interest are declared, we implement a recusal procedure and affected directors are excluded from discussions and any decisions on subject matter related to the declared conflict.

**Absa's Values** underpin our culture, and we continue our journey to embed these as we unite under the Absa brand. Values are included in all employee performance development objectives, and they are assessed on their ability to demonstrate living the Absa Values.

An **ethical culture** fosters values-based decision-making and shows how our policies and practices align with the Absa Values. This drives the proper behaviour concerning our stakeholders.

The **Absa Way Code of Ethics** outlines our values and expected behaviours when engaging with our fellow employees, customers, shareholders, governments, regulators, business partners, suppliers, competitors and the broader community. The objective is to define the way we think, work and act as a Group to ensure that we deliver against our purpose. The Code is reviewed and approved annually by the Social, Sustainability and Ethics Committee. This year, we focused on producing a simplified, more digestible and easily communicated Code of Ethics, which was achieved through a rigorous editing process. The Absa Way Code of Ethics online training was rolled out in 2021. There is ongoing training for new joiners and annual training for the rest of our employees. The annual ethics training commenced in November 2021, with a due date in April 2022. In the prior cycle ending February 2021, the completion rate was 96.3%. The Absa Way Code of Ethics video was screened across the Group through Absa Workplace (virtual platform). The annual Whistleblowing Awareness Week coincided with Absa's second Internal Ethics Day event, held on 21 October 2021, and hosted a live panel discussion with external experts and the Absa Interim Group Chief Executive Officer sharing his 2021 ethics message.

The Ethics Ambassador Forum was established during the year comprising senior compliance employees. The purpose of the forum is to create awareness and ensure constant communication of the ethics programmes within the Group. It also seeks to address ethics concerns raised by business, employees and third parties.

The Insider Trust Programme aims to prevent insider threats and mitigate the associated risk. Employee assessments are conducted across cyber, fraud and physical security domains.

A Group Head of Ethics was appointed in August 2021.

We consider actual and potential **conflicts of interest** in the annual assessment of directors' independence. A director may accept other board appointments, provided that any potential conflicts are considered and appropriately disclosed and managed, and the appointments do not conflict with the Group and/or adversely affect the director's duties. The proposed board appointment must be agreed upon with the Chairman, and more recently the DAC, prior to accepting such an appointment. In terms of managing conflicts, for example, candidates for Chair succession would have been recused from discussions related to this; and members on another corporate board are recused from the Group Credit Risk Committee whenever there is a conflict in regard to the external board that they serve (or a competitor of same). The Group Governance Framework, Board Charter and more recently, the Conflicts of Interest Policy provide clear guidance on the treatment of any conflict of interest.

**Conduct risk** is a principal risk, and the associated framework is linked with the Enterprise Risk Management Framework and guides management on conduct rules, processes and consequences within the Group.

Absa performs regular **bribery and corruption** risk assessments, which identify the level of bribery and corruption risk that Absa might reasonably anticipate. This risk tends to relate to the countries in which we conduct business, how we engage certain parts of our diverse customer base, and how we manage third-party relationships. We analyse, assess and prioritise the identified bribery risks and evaluate the suitability and effectiveness of the existing controls to mitigate the assessed bribery risks. The assessment is informed by quantitative and qualitative measures and is performed monthly, with oversight by the relevant governance structures, including submission to the Social, Sustainability and Ethics Committee with a summary to the Group Audit and Compliance, and Group Risk and Capital Management committees. Our Anti-Bribery and Anti-Corruption Policy promotes zero tolerance. It is designed to comply with legislation in all the jurisdictions in which Absa operates and considers the recommendations of various international financial crime standards-setting bodies, such as the OECD Anti-Bribery Convention, the UN Global Compact or UK Bribery Act, and International Organization for Standardization (ISO) 37001. The policy is formally reviewed and approved annually, and the control requirements are benchmarked to independent ratings or best practices.

We proactively engage with relevant industry bodies and private and public sector bodies to ensure robust discussion and active contribution to reducing financial crime. These include the South African Anti-Money Laundering Integrated Task Force, Financial Intelligence Centre, South African Revenue Service, BASA, South African Banking Risk Information Centre and ISO. The Group is in the process of applying for ISO 37001 certification. The Companies Act Regulation 43 requires the Social, Sustainability and Ethics Committee to, among other responsibilities, monitor the company's activities concerning the company's standing in terms of the goals and purposes of the United Nations Global Compact Principles and the OECD recommendations regarding corruption. The Group currently holds a satisfactory rating, which is the second highest rating on the scale of Unsatisfactory, Developing, Satisfactory and Mature. The Group has identified key focus areas to improve this rating to Mature.

**Employee conduct** is governed by several mechanisms including but not limited to the Absa Code of Ethics, Absa Values, Conditions of Service Policy, Conduct Risk Framework, Fraud Risk Policy and Investigations Standard, an Employee Relations Navigator system and the C-Zone platform.

Absa has no tolerance for willful detriment to customers, clients, market integrity, and effective competition from the inappropriate supply of financial services, including willful and negligent misconduct, breach of regulatory requirements and unethical behaviour.

Personal accountability is central to our culture and how we behave is instrumental in us achieving the highest standards of performance, adding value to our customers and clients and meeting our regulatory obligations. All staff are expected to:

- Act ethically and with integrity
- Collaborate with each other
- Act with due skill, care and diligence
- Be open and cooperative with regulators
- Treat customers fairly
- Observe standards of market conduct
- Respect one another professionally, including our diversity
- Remember our communities in day-to-day business.

Employee conduct is monitored through several risk mitigation tools, culture surveys and tracking disciplinary cases, grievances and ethical breaches. This analysis assists in determining the areas impacting culture and identifies how to better align these with Absa's Values. In addition, conduct forms part of an employee's annual performance assessment and unethical conduct can result in a range of possible sanctions, including dismissal. There were 414 cases initiated in 2021 for unethical conduct (2020: 321), representing 1.2% of total employees (35 267), and 116 dismissals (0.3%).

**C-Zone** is our digital compliance monitoring system, consolidating all employee-related compliance activities (including share trading, gifts and entertainment, and identifying conflicts of interest), ensuring efficient and confidential submission of required disclosures, thereby improving internal controls.

**Whistleblowing** is a safe platform for employees to raise concerns confidentially and anonymously regarding unethical behaviour and/or fraud. Working from home conditions reduced interactions between employees that previously would have given rise to whistleblowing reports. We saw the highest number of whistleblowing cases in the first quarter of 2021. These incidences were categorised as General Unethical Conduct and Fraudulent transactions, consistent with reports received for the second half of 2020.

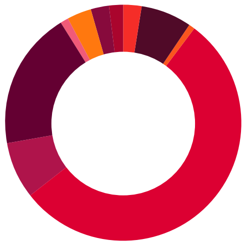
Tip-offs remain the most common method of detecting occupational fraud. In 2021, 416 tip-offs were received, of which 112 (36% of closed cases) have been substantiated to date and 201 unsubstantiated, while 103 remain under investigation (2020: 434; 144; 236; 54). 311 tip-offs were conduct-related, of which 76 (36% of closed cases) have been substantiated to date (2020: 98; 37%). The ageing of whistleblowing cases is actively monitored and reported on, and regular feedback is provided to whistleblowers, where possible. While a substantial number of cases were unfounded, those upheld contain important insights for management to ensure additional controls, consequence management or other behavioural changes are instituted. The necessary investigations were undertaken, and appropriate disciplinary action was applied where necessary. Six employees were dismissed. Offences of a criminal nature are referred to the relevant authorities for criminal prosecution. Whistleblowing is audited regularly (both internally and externally), where external audit focuses on the process and internal audit assesses the details.

Our **Ethics and Priority Whistleblowing and Investigations teams** are dedicated to embedding the Group's policies through regular communication and training. They also monitor compliance and investigate matters of a more serious nature.

Data privacy and protection of personal information is of utmost importance, and we are aware of our responsibilities in terms of the personal data entrusted to us. We process personal data responsibly and ethically. In 2021, 28 customer privacy complaints were substantiated, of which 18 (64% of cases) were requests by customers relating to access to information. Customer engagements have primarily been around deceased estate matters falling within the ambit of the Promotion of Access to Information Act or incorrect account deposits.

**Diving deeper:** Treating customers fairly, page 65, provides a profile of complaints handling relative to industry peers and standing with the Ombudsman. Intellectual and manufactured capital, page 57, provide further data privacy detail.

**Nature of dismissals**



| | |
|---|---|
| Abusing or misappropriating resources | **3** (3%) |
| Conduct causing disrepute | **8** (7%) |
| Criminal offence | **1** (1%) |
| Dishonesty | **63** (54%) |
| Drawing of enquiries without authorisation | **9** (8%) |
| Misrepresentation | **22** (19%) |
| Non-compliance with regulations | **1** (1%) |
| Refusal to obey lawful instructions | **4** (3%) |
| Undisclosed employment | **3** (3%) |
| Misuse of confidential information | **2** (2%) |

**Number of substantial whistleblowing cases**
(2020 comparitives in brackets)

| | |
|---|---|
| Abusing or misappropriating resources | **3** (3) |
| Breach of policy, procedures and contol | **27** (9) |
| Scams | **18** (0) |
| General unethical conduct | **13** (15) |
| Bullying/Victimisation/Harassment | **12** (18) |
| Fraudulent transaction | **11** (17) |
| Misuse of confidential/personal information | **8** (4) |
| Other | **23** (20) |

**Supplier due diligence** includes anti-bribery and anti-corruption checks. We require our suppliers to uphold high standards of corporate governance and to align with the Group's ethics and human rights policies. Their readiness to respond to, manage and mitigate operational, financial and reputational risks is assessed during onboarding and periodically thereafter, in line with the Group Procurement Policy, External Supplier Standard, the Supplier Management Standard and Supplier Code of Ethics. Independent assurance of high-risk and high-value tenders and outsourced agreements ensures that contracting processes are discharged in compliance with regulatory requirements, frameworks, policies and processes.

Absa is developing a set of compliance indicators that suppliers will be evaluated against. Smaller suppliers receive assistance with their processes to ensure that downstream conduct and ethics align with our own. The Group Supplier Code of Ethics has been circulated to suppliers to ensure that the Group's values and ethical standards are clearly articulated to, and supported by, all suppliers, with regular reporting to the Social, Sustainability and Ethics Committee. In 2021, the Ethics Enhanced Due Diligence (EDD) process was streamlined to the current Anti-Bribery and Corruption EDD processes, with clear criteria built into the supplier's onboarding processes. Absa is planning a programme during the latter part of 2022 to engage a wider spectrum of suppliers about ethics, governance and ethical tender practices. No suppliers were exited in 2021 as a result of ethical concerns.

Group Supplier Assurance continuously and specifically reviews our critical and high-spend suppliers for financial, operational and reputational risks. 335 reviews were conducted during the year (2020: 216).

**The Client Exit and Onboarding Committee** is a management committee that takes decisions regarding high-risk clients, suppliers, introducers and other third parties, and related financial, compliance, conduct and reputational risk. Each business segment also has a Client Exit and Onboarding Committee, which escalates material reputational risk matters to the Group Client Exit and Onboarding Committee. A total of 3 385 customers were assessed through this governance process since its inception in 2019, of which 1 428 customer relationships were exited.

In terms of **human rights**, we align with the International Labour Organization's (ILO's) Declaration on Fundamental Principles and Rights at Work. The Board regularly tests the Group's adherence to the various ILO and OECD principles and is satisfied with the Group's delivery against these requirements. The Social, Sustainability and Ethics Committee considered and provided input on the Group Human Rights Statement, which was a declaration by the Group to uphold and respect all human rights across all its operations and is premised on the 2011 United Nations Guiding Principles on Business and Human Rights. Importantly, to the extent that the United Nations' standards are higher than the policies of the applicable geography, the higher standards will apply.

**Supplier Code of Ethics**

**The Absa Way Code of Ethics**

## King IV outcome: Good performance

**The Board is accountable to shareholders and other stakeholders for creating and delivering sustainable value, and mitigating value erosion, through the execution of strategy and oversight of the management of the Group's businesses, while nevertheless maintaining its independence. It provides overall strategic direction within a framework of rewards, incentives and controls. A vital role played by the Board is to ensure that management strikes an appropriate balance between promoting long-term sustainable growth and delivering short and medium-term performance.**

The COVID-19 pandemic, with its material impact on economic markets that negatively affected the execution of an effective growth strategy in 2020, resulted in the Group embarking on a strategic re-anchoring. The Board, together with executive management, undertook a rigorous process to examine each of the strategic choices made in 2018 in light of the changes in the internal and external environment. We refreshed the **strategic priorities** for the business to ensure full alignment across the organisation.

With an emphasis on the need to return to being closer to customers both from a line and a support function point of view, there was a notable improvement in performance through improved cost-to-income ratios, revenue generation, pre-provision profit, headline earnings, return on equity and capital buffers and generation.

**Diving deeper:** External environment, page 20, Strategic overview, page 39.

**People and culture** progress reporting to the Social, Sustainability and Ethics, and Remuneration committees remains a focal point. There is notable traction in various areas such as employee experience, employee engagement, and leadership and training academies.

Agreement was reached between the Remuneration Committee and management on the reward framework for 2021 and beyond.

The creation of an entrepreneurial culture remains a strategic focus by implementing a robust talent management process, ensuring fair and reasonable remuneration practices, creating an inclusive working environment that promotes diversity and transformation in the workplace, nurturing an entrepreneurial mindset and delivering operating structures that enable talent to translate capabilities into sustainable value. Work still remains in the areas of employee engagement and retention, with emphasis placed on how career pathing in the Group can be improved. Culture transformation was prioritised through the development and launching of a culture curriculum. The COVID-19 crisis continued to be monitored, particularly from an employee wellbeing, health, productivity and engagement perspective. Retention of African, Indian and Coloured employees in South Africa continues to be a key focus for the Group.

**Diving deeper:** A winning talented and diverse team, page 41, Human capital, page 50.

Our **remuneration principles and practices** are designed to deliver remuneration that is market-competitive; fair and responsible; incentivises performance; assists in attracting and retaining talent and those with scarce skills; reflects regulatory requirements; and is aligned with the risk and conduct expectations of the Group. The Board was cognisant of the balance of stakeholder interests over the long term when considering the 2021 remuneration outcomes. The Remuneration Committee considered a comparison of the remuneration practices and policies of large local and international competitor banks, along with our peer group's approach to variable remuneration, and executive director and prescribed officer remuneration and reporting. The Committee conducted a further review of our reward framework for 2021 onwards. These deliberations (culminating in decisions in March 2022) involved a review of the competitiveness of our remuneration frameworks, and our total remuneration levels based on available market information. Our short term incentives are differentiated based on performance. We enhanced our long-term incentives in 2021 aligned to market practice, broadening participation to enable attraction, retention and motivation of talent and holders of critical skills. Our fixed remuneration increases awarded in 2021 were generally focused on our bargaining units and junior and middle managers, with senior managers not typically receiving increases. For increases that will apply in 2022, all categories of employees are eligible for consideration. However, those at more junior levels will typically receive higher average increases. A significant market benchmarking exercise was conducted regarding the market competitiveness of the fixed remuneration of our more junior colleagues in South Africa in the last quarter of 2021. As a result, approximately 4 400 colleagues received increases in November 2021 to bring their fixed remuneration within the preferred range relative to market median, at an annualised value of R290 million.

The short-term performance incentive pool to be paid in March 2022 for the 2021 financial year performance was enhanced to ensure that the on-target pool was market competitive. The short-term incentive pool approved by the Remuneration Committee reflected an above-target outcome, based on the outperformance delivered by the Group.

Vesting of the 2019 long-term incentive award for the performance period ended 31 December 2021 will take place in March or September 2022 (as two separate allocations were made in 2019) and is at 20.7% of the value of award, which was made at stretch level per the Long-Term Incentive Plan rules. This reflects the material impact of Covid on business performance during the performance period (2019-2021).

Participation in the long-term incentives (LTI) awarded in early 2021 was highly concentrated, in line with the changes to our remuneration policy in 2020. As an outcome of the 2021 review of our remuneration frameworks, the LTI was enhanced in October 2021 to a greater number of senior managers to to improve market-relatedness and to support attraction, retention and motivation of those regarded as talent or holders of critical skills.

Further details of our Remuneration Policy and our 2021 remuneration outcomes are set out in our Remuneration Report.

**Diving deeper:** Remuneration outcomes, page 95, 2021 Remuneration Report

**Information and technology**, and specifically driving **innovation**, are central to our competitiveness, growth, and sustainability. Through the re-anchoring of the Group strategy, one of the five strategic themes identified was creating a digitally powered business. The 2021 book of work was subsequently re-prioritised, with 62% of the initiatives aimed at sustaining innovation and meeting regulatory and mandatory obligations, including initiatives to build and sustain modern tech architecture (27%), distribution first channels (19%) and strategic capabilities (16%). A technology skills assessment was performed to identify gaps and map out initiatives to address these while keeping up with the pace of technological advancement. High priority areas such as cybersecurity, machine learning, technology engineering, Salesforce and incident response management were identified. Outside the high priority areas, the Information and Technology Office intentionally invested in other critical skills aligned with the Group's strategy, such as cloud computing, data science, engineering and development, security and operations. Cybersecurity and data leakage prevention remain on the agenda of the Information Technology Committee.

**Diving deeper:** Intellectual and manufactured capital, page 57.

An assessment by a third party indicated that pure data leakage controls were not adequate to mitigate risk and that it was necessary to have a multi-layered, coordinated effort across business units and central technology teams. The cybersecurity strategy is being reviewed to ensure that it adequately responds to new threats. To ensure accelerated reduction of risks, management identified the sourcing of cybersecurity skills, particularly cyber subject-matter experts in cloud security and identity access management, as areas of heightened focus.

The Information Technology Committee noted that significant progress was made over the past few years to provide reliable and stable systems for customer transactions. To enable execution of the Information and Technology strategy, the Committee recognised the need to identify the scarce, critical and future technology skills required by the business and has focused on talent retention through ensuring competitive remuneration and incentive packages. Other priorities include investing in staff through training, developing external skills through funding bursaries and partnering with tertiary institutions and learning providers, as well as an ongoing assessment and monitoring of skill levels. Significant milestones were reached on the Group's hybrid-cloud journey, including the launch of the Group Cloud Incubator in March 2021. One of the drivers of the Group's objectives in pursuing cloud computing is the ability to innovate by having access to innovative services readily available in the cloud, such as AI.

The Flavour of the Year Topic identified by the SARB Prudential Authority was the *impact of new technologies on regulated financial institutions*. In line with the SARB's focus, we concentrated on the topics of technology and cybersecurity in training sessions presented to the Board during the year.

**Diving deeper:** Digitally powered business, page 41, Intellectual and manufactured capital, page 57.

> **The Group Governance Framework clarifies the roles and responsibilities of the Group and subsidiary boards, the proportional application of King IV by subsidiaries and the management of discretionary limits across the Group.**

## King IV outcome: Effective control

**The extent to which we can monitor and effectively manage the material matters that have the potential to affect the sustainability of our business is directly linked to value creation, preservation and erosion. The Board ensures that management maintains a system of internal controls to deliver accurate results and comply with applicable laws and regulations. In carrying out these responsibilities, the Board must consider what is appropriate for the Group's business and reputation, the materiality of the financial and non-financial risks inherent in the business, and the relative costs and benefits of implementing specific controls.**

**Diving deeper:** Materiality determination, page 30.

The Absa Group and Absa Bank Boards have approved the **Group's Enterprise Risk Management Framework**, which incorporates principal risks and sub risks, as well as the Group and Bank's risk appetite. The Boards closely monitor risk appetite consumption against targets, triggers and limits. Globally, high levels of uncertainty have amplified the risks faced by financial market participants and the economy. The Board's focus remains on proactive risk and capital management to positively position itself for the future.

**Diving deeper:** Risks arising from the operating environment, page 31, 2021 Pillar 3 Risk Management Report

Our **Group Governance Framework** systematises the application of policies and standards. It ensures that the Group's minimum requirements in governance, internal controls, financial management, disclosure controls, risk management, legal and regulatory compliance, internal audit, ethics, human resource management, information management, stakeholder relationships and sustainability are complied with by all the Absa Group entities. The framework clarifies the roles and responsibilities of the Group and subsidiary boards, the proportional application of King IV by subsidiaries and the management of discretionary limits across the Group.

The Group conducts a biennial **evaluation of our Board and governance practices**, alternating between a self-assessment and an independent facilitated process. Going forward, the review will be carried out annually, with a more detailed external review conducted biennially. The Institute of Directors of Southern Africa facilitated the 2020/2021 evaluation and assessed the effectiveness of the Board and its committees (save for the Models Committee), individual directors and the Group Chairman. No significant matters of concern were noted, with all governance areas being rated four and above out of five. Board culture and Board committees were rated exceptionally well, while Board composition was rated marginally lower. An action plan is in place to address the granular findings concerning areas identified for improvement.

Our Group Audit and Compliance Committee monitors **compliance with legislation and regulation** governing the Group in respect of South Africa and all our presence countries. Regulatory relations are reported on as part of the process to assess the level and timeliness of responses and any concerns raised by our regulators. Substantial conformance reviews are performed by compliance, internal audit and external audit.

**Corruption** continues to have a significant economic impact, leading to an increased need for business, in particular, to maintain financial discipline, ensure appropriate conduct and increase the rigour with which it monitors and reports financial crime.

**Fraud** is a standing matter on the agenda of the Group Audit and Compliance Committee. The committee receives regular reports, which include the gross and net fraud losses, as well as lessons learnt on the most material losses.

We strive to combat **financial crime** and constantly enhance our control environment to reduce the risk of our employees or customers breaching legislation. The same is expected from employees and any third parties providing services to or on behalf of Absa. Financial crime is a principal risk under the Enterprise Risk Management Framework.

Diving deeper: Outlook, Regulatory change, page 80.

## King IV outcome: Trust and legitimacy

**The Board accepts accountability for the Group's impact on the environment, for evolving as society changes and for ensuring that we comply with applicable/relevant laws and regulations. In 2021, the Social, Sustainability and Ethics Committee deliberated on a broad range of matters, including conduct and ethics; customer engagements; culture and employee relations; and broader sustainability, transformation and citizenship efforts.**

One of the key themes of the Group's strategy is to be an **active force for good in everything we do**. This requires purposefully creating inter-generational value, actively managing planetary boundaries, contributing meaningfully to the societies in which we operate and being committed to the highest standards of governance and ethics. Our strategy requires us to publicly speak up and be an active, positive influence in the world. In line with this thinking, our strategy was refreshed in response to prevailing challenges and systematic issues across the continent.

The Group Sustainability Risk Framework and the Environmental and Social Risk Management System Standard was approved by the Executive Risk Committee on 19 July 2021.

**Diving deeper:** Strategic overview, page 39, Social and relationship capital, page 64, Natural capital, page 75, 2021 ESG Report

**Stakeholder engagement** is as essential in creating value as it is in protecting against value erosion. Engaging with stakeholders in a structured and well-coordinated manner through meaningful, transparent communication, enables us to cultivate relationships that can serve as valuable social capital in good and challenging times. It is a process that provides important information about our business, social, political and physical environment to shape strategic thinking and hone our decision-making processes. Collaboration is vital to the Group's approach, and strategic partnerships are driven with like-minded stakeholders. The Board and management proactively engage with material stakeholders to strengthen relationships and address their concerns in the best way possible. The engagement enables our Board to exercise constructive influence, as and when appropriate, and to protect the interests of our minority shareholders.

The Group will continue to engage with national policymakers, industry and peer groups and non-governmental organisations to contribute positively and proactively to sustainability in business and promote environmental and social considerations at a greater impact level. The Group participates in the National Business Initiative Climate Change Work Stream. In April 2021, Absa responded to a climate risk survey from the Prudential Authority and participated in the OECD dialogue on the transition to net zero for fossil fuel-based economies.

**Diving deeper:** Stakeholder needs and expectations, page 25.

**Transformation** remains a critical focus for the Group. The Social, Sustainability and Ethics Committee considered the Group's progress in terms of the Group Transformation scorecard. A Level 1 B-BBEE status was attained in 2021, improving on the Level 2 rating in the prior year. Progress was made regarding a potential structure for the Group's planned black economic empowerment transaction. Presentations were made to the Board Finance Committee and the Group Board, emphasising the broad-based nature of the transaction (even on the investor side) and the need to ensure a balance between the investor scheme and the staff scheme.

**Diving deeper:** 2021 B-BBEE Report, Strategic overview, page 39.

The Board commits to **accountability and transparency**, providing credible and comprehensive financial and non-financial reporting, accompanied by constructive stakeholder engagement. We align with reporting best practice and are subject to internal and/or external assurance and governance procedures. The Group continues to review our performance against various ESG performance indices/benchmarks with the ambition of continuously improving our disclosures and aligning with associated ESG best practices.

**Diving deeper:** 2021 ESG Report

*“Engaging with stakeholders in a structured and well-coordinated manner through meaningful, transparent communication enables us to cultivate relationships that can serve as valuable social capital in good and challenging times.”*

# Rewarding value creation

*"The RemCo has maintained its focus on remuneration's strategic role in driving organisational performance and stakeholder value creation. In 2021, the RemCo continued to evolve the Remuneration Policy to further strengthen our remuneration frameworks and improve market competitiveness."*

## RemCo background statement

The RemCo is pleased to present to shareholders, on behalf of the Board, our 2021 Remuneration Report. This sets out the enhancements to our Remuneration Policy in 2021, building on our remuneration framework review in 2020. It further sets out our remuneration outcomes for the 2021 financial year, including for executive directors and prescribed officers.

**Rose Keanly** was appointed as RemCo Chairman from 8 February 2022. Given that this appointment is after the reporting period to which this Remuneration Report applies, the report is issued collectively by the Remuneration Committee.

## The year in review

Despite further waves of Covid-19 infections and periods of social-distancing restrictions, the global economy showed strong economic growth during 2021, as countries began recovering from 2020's sharp slowdown. Countries with the most extensive monetary and fiscal support led the rebound, as have countries with the most successful vaccination rollout. Monetary and fiscal policies across all major economies remained highly accommodative. However, growing evidence of demand- and supply-side inflation pressures saw policymakers in several large markets indicate that monetary normalisation would start in 2022.

South Africa's economy, already under pressure before the pandemic, witnessed a sharp economic contraction in the second quarter of 2020, followed by recovery through the second half of 2020 and into 2021. Economic recovery progressed somewhat more rapidly than expected, notwithstanding the additional growth and confidence challenges posed by load-shedding and July's social unrest. Real GDP is forecast to grow 4.7%. The Reserve Bank raised policy rates by 25bp in November and signalled a likely path of gradual further increases. Headline inflation increased towards the upper edge of the Reserve Bank's target in late 2021, primarily driven by fuel prices.

All our Absa Regional Operations (ARO) presence countries look to have returned to positive economic growth during 2021, with those countries hit hardest by the Covid-19-related economic slowdown the previous year generally recovering faster. We estimate GDP-weighted economic growth of 5.7% for these countries.

## RemCo focus areas

The RemCo oversaw a significant review of Absa's remuneration frameworks in 2020. This, together with our 2020 remuneration outcomes, were well received by shareholders at our 2021 annual general meeting (AGM).

The RemCo has maintained its focus on remuneration's strategic role in driving organisational performance and stakeholder value creation. In 2021, the RemCo continued to evolve the Remuneration Policy to further strengthen our remuneration frameworks and improve market competitiveness. Several fundamental principles guided its decision-making:

- Strong focus on pay for performance at a short-term incentive pool level and in the distribution of the pools, and for individuals, differentiated reward outcomes based on performance and contribution. Pay for performance is a key principle in considering fixed remuneration increases, and short- and long-term incentive outcomes.
- Ensuring the market competitiveness of Absa's total remuneration offering to support the attraction, motivation and retention of critical talent and scarce skills and in support of our transformation imperatives. This in the context of significant competition for talent in all of our markets.
- Our fundamental commitment to fair and responsible remuneration across the dimensions of race, gender and differentials of pay between executives and other employees.
- An appropriate balance of stakeholder interests over time. This includes considering the needs and interests of shareholders, employees, customers and the communities we operate in when determining remuneration outcomes.

Our policy enhancements, assessed in the context of the Group's performance, were reflected in our implementation outcomes for the year. These are set out in detail in this Remuneration Report and are summarised below:

## Key policy enhancements

We made two key policy enhancements in 2021:

- Our 2021 short-term incentive scorecard includes a 20% weighting on non-financial metrics (colleague, customer and sustainability, with the control environment as a potentially downward adjusting factor). Our 2021 and 2022 long-term incentive scorecards similarly include 20% non-financial metrics. This reflects the importance of Environment, Social and Governance (ESG) considerations in driving and measuring organisational performance and sustainable business outcomes.
- The RemCo approved an enhancement to the long-term incentive framework to improve market-relatedness and to support attraction, retention and motivation of those regarded as talent or holders of critical skills. Awards are subject to Group performance targets on 50% of the award, and the balance is subject to time-based vesting only. Executive directors and prescribed officers are not eligible to receive this award type. Further detail of our long-term incentives is set out on pages 11 and 12 of the Remuneration Policy.

## Our Group performance

Performance is a critical lens through which remuneration outcomes are assessed.

The Group achieved record profits in 2021, performing substantially better than the 2021 Short-Term Plan (STP) and very competitively relative to market peers.

- ▲ Group headline earnings of R18.6bn was more than double the earnings generated in prior year (FY'20: R8.0bn) and considerably stronger than pre-COVID-19 levels (FY'19: R16.3bn), supported by lower impairments and strong pre-provision profit growth (+7%, +10% ex FX). This resulted in a Return on Equity of 15.8% which was materially higher than the prior year (FY'20: 7.2%) and above our Cost of Equity (14.5%).
- ▲ Impairment charges of R8.5bn were significantly lower than prior year (FY'20: R20.6bn) which included a judgemental macroeconomic overlay adjustment of R5.4bn. The 2021 charge reflects improved credit delinquencies, improved forward-looking macroeconomic assumptions and model-related enhancements in RBB. The credit loss ratio decreased to 77 bps (FY'20: 192 bps) which is at the bottom end of our through-the-cycle range. Group loan coverage ratio remains strong at 4.08% (FY'20: 4.42%), and above historical levels (FY'19: 3.27%).
- ▲ Revenue increased by 6% (+8% ex FX) mainly from net interest income which grew by 9% (+13% ex FX) mainly from a higher net interest margin which expanded to 4.46% (FY'20: 4.17%) and strong growth in deposits and RBB secured advances.
- ▲ A strong liquidity position was maintained and the Group Liquidity Coverage ratio of 117% and a Net Stable Funding Ratio of 116% are well above the regulatory minimums. Customer deposit growth of 12% (+10% ex FX) was stronger than customer advances growth (+7%, +6% ex FX).
- ▲ Performance momentum improved further in the second half with headline earnings of R10.0bn increasing by 53% (+55% ex FX) on the comparative period in the prior year and was higher than the first half earnings of R8.6bn. Loan momentum has also shown stronger growth in the second half, particularly in CIB.
- ▲ The Group has strengthened its capital position with the CET 1 ratio improving to 12.8% (FY'20: 11.2%) supported by improved profitability as well as capital precision initiatives offset by RWA growth from organic opportunities.
- ▲ Operating expenses increased by only 4% (+7% ex FX) notwithstanding materially higher variable remuneration costs whilst underlying cost growth continues to be well controlled. The cost-to-income ratio reduced to 55.2% (FY'20: 56.0%) following 1% positive operating JAWS.
- ▼ Non-interest income was largely unchanged on the prior year (although increased by 2% ex FX). The low growth was adversely impacted by the Insurance business which was a c.4% drag on Group NIR growth following higher mortality claims and COVID-19 reserving. Fee income growth was moderate (+2%, +4% ex FX) and was adversely impacted by customer centric pricing changes in RBB SA. CIB Trading revenues grew strongly (+14%, +20% ex FX).

The RemCo considered the overall operating environment and our financial results in determining our remuneration outcomes. This was in respect of both our short-term and long-term incentives. It also had regard to non-financial performance in the form of organisational health, which included customer, colleague, sustainability and control. Organisational health was assessed to be marginally behind target for the short-term incentives and in line with target for the 2019 long-term incentive vesting in 2022.

***"The RemCo considered the overall operating environment and our financial results in determining our remuneration outcomes. This was in respect of both our short-term and long-term incentives. It also had regard to non-financial performance in the form of organisational health, which included customer, colleague, sustainability and control."***

## Key implementation outcomes

Our Remuneration Policy, including enhancements implemented in 2021, together with our performance during the year, were considered in determining our 2021 implementation outcomes. Key highlights are set out below and detailed in our Implementation Report.

### Short-term incentives

In our 2019 and 2020 Remuneration Reports, we communicated that a review of banking peers' public disclosures of performance short-term incentive pools indicated that the Group's short-term incentive pools were lower than those of our peers, relative to earnings. We indicated that it was contemplated that the pools would increase over time, provided that the Group's performance improved in line with our medium-term financial targets and relative to our peer group. In this regard, our 2021 short-term incentive outcomes were determined in the context of detailed benchmarking during the year and the Group's outperformance.

#### Benchmarking our pool

- We benchmarked our short-term incentive pools against competitors, using detailed market analysis conducted by external advisors. We reviewed our remuneration ratios with reference to headline earnings, revenue, pre-provision profit and profit before tax. The analysis showed that our on-target short-term incentive pool was materially lower on a relative basis than in our peers.
- We increased our on-target performance short-term incentive pool by R450m to make this more competitive and market-aligned. We adopted a cautious approach to ensure that this increase was sustainable into the future based on ongoing performance. This will be subject to further review in 2022. Details are set out on pages 18 to 21 of the Implementation Report. Executive directors and prescribed officers were eligible to participate in the enhanced pool, with actual 2021 short-term incentives being off a low base relative to 2020 given the material impact of COVID-19 on business performance and variable remuneration in 2020. Individual disclosures are set out on pages 23 to 42 of the Implementation Report.

#### 2021 Performance short-term incentive outcome

In approving the final pool outcome, the RemCo took account of:

- The 2021 short-term incentive scorecard which sets out a range of financial (80% weighting) and non-financial (20% weighting) measures and metrics aligned to the Board-approved Group Balanced Scorecard and performance of the Group relative to each of these measures;
- The Group's performance against the Board-approved 2021 short-term plan and relative to the market (based on latest publicly available information);
- The quality of the Group's earnings (with inputs from the Group Audit and Compliance Committee) and whether any downward adjustment was required based on the control environment. The quality of earnings was determined to be high. No adjustments regarding the control environment were deemed necessary; and
- The shareholder experience acknowledges that the Group has not yet returned to full dividend payments to shareholders. However, the Group's total shareholder return has been at the top end of the market over one and two years, and ahead of the major banks.

#### Capping the performance outcome and RemCo discretion

The RemCo approved a **Group performance short-term incentive pool of R2,828m** (in constant currency), which included awards for our senior executives (including executive directors and prescribed officers), reflecting very strong performance as outlined above. The RemCo applied a cap on the pool calculation to determine this pool outcome, where only performance up to 120% of the relevant target was considered. This resulted in a calculated pool outcome between on-target and stretch level. This is set out on pages 18 to 21 of the Implementation Report.

In addition, the RemCo approved a discretionary short-term incentive allocation of R100m to be directed toward those in frontline, key operational, enablement support and technical roles and those with scarce and critical skills, in recognition of their ongoing role in supporting the Group's response to COVID-19 and during the unrest in South Africa in July. Executives (including executive directors and prescribed officers) were not eligible to participate in this discretionary allocation. Please see page 20 of the Implementation Report for further details.

A separate Investment Cluster incentive pool of R22m was approved. This plan has been operational for several years for a ringfenced group of employees within the Investment Cluster. No material changes were made to this plan in 2021.

The 2021 short-term incentives allocated to our executive directors and prescribed officers was R52m. This reflects the strong performance of the Group, the growth in the Group pool, and the executives' individual contribution during the year. Individual disclosures are included on pages 23 to 42 of the Implementation Report.

### Long-term incentives

Our 2019 long-term incentive will vest in 2022 at 20.7% of the stretch outcome, based on the outcomes relative to the Group performance targets. The detail is set out on page 22 of the Implementation Report.

### Fair and responsible remuneration

Fair and responsible remuneration was a core focus in 2021. Specific implementation actions reflect a conscious decision to strengthen fair pay by investing in the lower levels in the organisation.

**Targeted fair and responsible remuneration actions**

- Implementation of out-of-cycle remuneration increases at an annualised value of R290m on 1 November 2021 in South Africa to bring those individuals low in the relevant remuneration ranges to the minimum of the preferred range relative to the market median. The RemCo applied a strong transformation and diversity lens in assessing outcomes. Approximately 4,400 employees up to middle management received this increase.
- Fixed remuneration increases in our annual pay review are generally set at higher levels for more junior employees than those for more senior employees. This has been consistently applied over several years.
- Our minimum annual cost to company in South Africa will increase to R200,000 with effect from 1 April 2022.
- Implementation of targeted fixed remuneration increases in several of our ARO operations to increase competitiveness of fixed remuneration for those holding scarce and critical skills. Much work is still required to obtain more robust pay and benefits benchmark data in the ARO markets to ensure pay is both fair and competitive in all our markets.

**Improved data analytics and insights**

- We made increased use of detailed analytics and insights to assist us to make progress on fair and responsible remuneration.

Further detail is on page 21 and 22 of our Implementation Report.

## Assessing non-financial outcomes in our variable remuneration outcomes

Our 2021 short-term incentive scorecard includes 20% non-financial metrics. The non-financial element of our 2021 long-term incentives is 20% of the on-target outcome, up from 10% in 2019 and 2020.

There is considerable rigour applied in the assessment of the non-financial outcomes:

- The Social, Sustainability and Ethics Committee reviews outcomes related to colleague, customer and sustainability and makes a recommendation in this regard to the RemCo.
- The Group Audit and Compliance Committee reviews the control environment, which is a potentially downward adjusting factor. This was informed by an assessment by Group Risk, Group Compliance and Group Internal Audit and similarly makes a recommendation to RemCo. This includes consideration of any downward adjustment to the pool that may be required.
- The RemCo deliberates on these recommendations and determines the final non-financial outcome.

The approach to assessing non-financial performance in the short-term and long-term incentives ensures that the appropriate Board committees are fully engaged in the assessment process and consider all relevant factors.

# Stakeholder considerations

All remuneration decisions were taken through the lens of ensuring the long-term sustainability of our business and a balance of stakeholder interests over time. In approving the enhancements to the remuneration frameworks, and the remuneration outcomes for 2021, the RemCo considered the following:

- The very strong overall performance delivered by the Group in 2021 is very competitive in the market and underpinned by a high quality of earnings.
- Ensuring that our remuneration frameworks remain fit-for-purpose and competitive to support the attraction, retention and motivation of key talent and critical skills against the backdrop of significant competition for talent in all our markets.
- Our ongoing efforts to support colleagues, customers, and communities in the context of COVID-19 continued to focus on our broader duty of care in this regard.
- The RemCo was mindful that the Group has not yet returned to a full dividend payment to shareholders. However, it is noted that the improving Group performance trends were reflected in our Total Shareholder Return, which was toward the top end of the market over one and two years and ahead of the major banks.

# Executive leadership changes

## Group Chief Executive transition

The Board announced in April 2021 that it had reached a mutual agreement with **Daniel Mminele**, our previous Group Chief Executive, that he would step down as Group Chief Executive and would exit from the Group. The separation was a consequence of the non-alignment between the Board and Daniel on strategy and culture transformation matters. Daniel stepped down as Group Chief Executive on 20 April 2021, with his last date of service as an employee being 30 April 2021. The termination of employment was on a "no-fault" basis.

For a speedy resolution and in the best interests of the organisation, the Board agreed that Daniel would receive a termination payment that would include good leaver treatment on unvested short-term incentive deferrals and unvested long-term incentives, in respect of which Daniel received cash-equivalent payments. All outstanding awards lapsed on termination. A summary of the separation terms (including details of all separation payments) is set out on page 34 of the Implementation Report. Separation payments are included in the combined remuneration tables on pages 35 and 36 of the Implementation Report.

**Jason Quinn** was appointed as Interim Group Chief Executive with effect from 20 April 2021. His remuneration outcomes are set out in the Implementation Report. Jason resumed his role as Group Finance Director with effect from 29 March 2022.

**Arrie Rautenbach** was appointed as Group Chief Executive, and as an executive director of the Group, with effect from 29 March 2022. His remuneration outcomes (including those pursuant to his appointment as Group Chief Executive) are set out in the Implementation Report.

## Group Finance Director transition

**Punki Modise** was appointed as Interim Group Finance Director (and Executive Director of the Group) with effect from 23 April 2021, taking over from Jason Quinn pursuant to his appointment as Interim Group Chief Executive. Her remuneration outcomes are set out in the Implementation Report.

Punki was appointed as Interim Chief Executive, Retail and Business Banking with effect from 29 March 2022. She will remain a member of the ExCo, and stepped down as an executive director.

## Shareholder engagement

We are committed to ongoing engagement with shareholders regarding remuneration. The Group Chairman and previous RemCo Chairman engaged with shareholders ahead of the 2021 AGM on matters including our broader remuneration framework review which was in our 2020 Remuneration Report. As in prior years, we sought to address feedback in our evolving practices and disclosures and thank shareholders for their constructive input.

At the AGM on 4 June 2021, we received an 84.52% vote in favour of the Remuneration Policy and 93.96% in favour of the Implementation Report. The vote on the Implementation Report showed a further improvement from the 2020 AGM outcome of 82.99%.

Our Remuneration Policy and the Implementation Report for 2021 will be presented for separate annual non-binding votes at our AGM on 3 June 2022, with the resolutions set out in the 2022 Notice of AGM.

## Regulatory compliance

Our reporting aligns with the South African Companies Act requirements, Section 64C and Regulation 39(16)(a) of the South African Banks Act, the principles and recommended practices of King IV and the related Johannesburg Stock Exchange (JSE) Listings Requirements. The South African Prudential Authority's Governance of Insurers (GOI) standards were applied in respect of Absa Financial Services. We have been mindful of broader remuneration governance guidance and frameworks, including the Financial Stability Board's Principles for Sound Compensation Practices.

We continue to engage with regulators regarding evolving remuneration governance and good practice requirements.

Aligned to King IV, the Group will engage with shareholders in the event of a negative vote of over 25% on our Remuneration Policy or 2021 Implementation Report.

## Access to information and advisers

Members of the RemCo may access any information to inform their independent judgement on remuneration and related matters, including regarding risk, regulation, compliance, control or conduct.

Deloitte is the independent RemCo adviser. Advice was provided on enhancements to our remuneration framework, local and international market practice and executive remuneration. Deloitte does not provide remuneration advisory services to management. The advice provided to the RemCo was objective and unbiased.

Specialist consultancy firms are engaged by management to provide market benchmarking data and general reward advisory services. These include RemChannel, McLagan, Mercer and KornFerry. Vasdex Associates provided advisory services to management in respect of benchmarking the competitiveness of the Group's variable pay pools.

Several enabling and control functions within the Group, including the Group People and Culture Function, Group Finance, Risk, Compliance and Internal Audit, provide supporting information and documentation to the RemCo. In particular, Group Finance is actively involved in all matters pertaining to the formulation and measurement of metrics for the short-term incentive and the long-term incentive, and the related verification of the pools.

EY provided an assurance report to the RemCo on the metrics' outcomes for the 2019 long-term incentive that will vest in 2022. These are set out on page 22 of the Implementation Report.

## Conclusion

The Group delivered a strong performance in 2021, reflected in our remuneration outcomes.

As in 2020, we have sought to ensure an appropriate balance of stakeholder interests in these outcomes and focused on attracting, motivating, and retaining skilled and talented individuals. In this context, we continue to give considerable attention to ensuring that our remuneration philosophy and policy are fit-for-purpose and support the Group's re-anchored strategy.

Our remuneration philosophy serves as an essential catalyst in focusing our employees on delivering the Group's strategic ambitions. We believe that our remuneration decisions represent a fair outcome in the context of the organisation's performance, are appropriately aligned with shareholder and stakeholder interests over the long-term, and are sustainable. Indications are that the 2020 remuneration framework provided a sound foundation for our evolving remuneration policies and practices and that the steps taken in 2021 are starting to deliver on the objectives we set.

During 2022 we will review the impact of our 2021 remuneration outcomes and identify further opportunities to strengthen our frameworks.

***Absa Group Remuneration Committee***

# Executive directors and prescribed officers: remuneration tables

## Combined tables for 2021 total remuneration

| Executive directors | Jason Quinn | | Punki Modise[6] | Daniel Mminele[7] | | Peter Matlare | | Rene van Wyk[8] | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Awarded Remuneration** | 2021 R | 2020 R | 2021 R | 2021 R | 2020 R | 2021 R | 2020 R | 2020 R | 2021 R | 2020 R |
| Salary | **5 418 952** | 5 422 836 | **1 866 091** | **2 922 288** | 8 430 191 | **1 617 039** | 6 501 664 | 833 333 | **11 824 370** | 21 188 024 |
| Medical aid | **119 604** | 115 128 | **156 811** | **–** | – | **55 632** | 188 280 | – | **332 047** | 303 408 |
| Retirement benefits | **411 749** | 412 862 | **159 877** | **51 466** | 154 680 | **89 621** | 537 727 | – | **712 713** | 1 105 269 |
| Other employee benefits | **59 008** | 58 487 | **210 403** | **26 247** | 75 102 | **7 726** | 31 642 | 28 842 | **303 384** | 194 073 |
| **Total fixed remuneration** | **6 009 313** | **6 009 313** | **2 393 182** | **3 000 001** | **8 659 973** | **1 770 018** | **7 259 313** | **862 175** | **13 172 514** | **22 790 774** |
| Non-deferred cash award[1] | **9 000 000** | – | **5 500 000** | **–** | – | **–** | 3 300 000 | – | **14 500 000** | 3 300 000 |
| Deferred share award[2] | **8 000 000** | 4 800 000 | **4 500 000** | **–** | 5 000 000 | **–** | – | – | **12 500 000** | 9 800 000 |
| **Total short-term incentive[3]** | **17 000 000** | **4 800 000** | **10 000 000** | **–** | **5 000 000** | **–** | **3 300 000** | **–** | **27 000 000** | **13 100 000** |
| **Face value of long-term incentive award (on-target award)[4]** | **12 500 000** | **10 000 000** | **10 000 000** | **–** | **15 000 000** | **–** | **–** | **–** | **22 500 000** | **25 000 000** |
| **Other payments[5]** | **–** | **–** | **816 546** | **30 466 273** | **–** | **893 316** | **–** | **–** | **32 176 135** | **–** |
| **Total awarded remuneration** | **35 509 313** | **20 809 313** | **23 209 728** | **33 466 274** | **28 659 973** | **2 663 334** | **10 559 313** | **862 175** | **94 848 649** | **60 890 774** |

1. Executive directors and prescribed officers did not receive cash short-term incentive awards in respect of 2020 performance, aligned to the Prudential Authority guidance. In light of the passing of Peter Matlare on 7 March 2021, the Board approved the payment in cash of the short-term incentive that was awarded to him, as deferred awards would, in the normal course, be accelerated in the event of the death of a participant. Short-term incentive awards in respect of 2021 performance will be subject to deferral into Absa Group shares on 50% of the value of the award that exceeds R1m, with the balance paid as cash, as set out in the Remuneration Policy.
2. All deferral in respect of the short-term incentive award made for 2021 performance will be in Absa Group shares. Deferred awards disclosed in 2021 will be granted in April 2022. The full award made in respect of 2020 performance was deferred into Absa Group shares, with vesting in equal proportions on the 1st, 2nd and 3rd anniversaries of the award date. Release will be subject to the additional CET1 safety and soundness validation. The award was granted in April 2021.
3. Short-term incentives are not defined as incentives that are settled in the next 12 months after the reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's Remuneration Policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period. (three years). For deferred short-term incentives awarded in 2021 for 2020 performance, an additional CET1 safety and soundness validation will apply at vesting. In contrast to this, the long-term incentives relate to awards which have future Group performance criteria that will determine the final vesting outcome, in addition to a continued service condition. Total awarded remuneration disclosed in 2020 includes the fixed remuneration paid during 2020, the total short-term incentive in respect of 2020 performance (consisting only of a deferred award granted in April 2021, other than in respect of Peter Matlare) and the face value of the long-term incentive to be granted in April 2021. Amounts disclosed in 2021 follow the same principle, except that the short-term incentive awarded for 2021 performance consist of a cash award and a deferred share award.
4. This is the "on-target" value of the award. The awards reflected in 2020 were made in April 2021, and those reflected in 2021 are to be made in April 2022.
5. "Other payments" reflect all payments made to Daniel Mminele on termination of employment (see note 7) and for other executive directors and prescribed offices, the encashment of leave as a consequence of changes to our leave policy. For Peter Matlare, the payment is in respect of accrued leave to the date of his passing - excludes any death benefit due from Group benefit funds.
6. Punki Modise was appointed as the Interim Financial Director effective 23 April 2021. Fixed remuneration amounts shown are prorated from appointment date. Both STI and LTI shown at full value.
7. Daniel Mminele stepped down as a Director on 20 April 2021 and ceased being an employee on 30 April 2021. All remuneration paid to him in 2021 has been included in this disclosure. This includes separation payments, contractual notice payments and leave payments which are shown as "Other payments".
8. Rene van Wyk served as Chief Executive from 1 January to 14 January 2020. He was an executive director from 15 January to 31 January 2020. Remuneration received in 2020 as a non-executive director from 1 August 2020 to 31 December 2020 is set out in the table on non-executive directors' remuneration.

# Executive directors and prescribed officers: remuneration tables *continued*

## Combined tables for 2021 total remuneration *continued*

| Executive directors | Jason Quinn | | Punki Modise[6] | Daniel Mminele[7] | | Peter Matlare | | Rene van Wyk[8] | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Single-figure remuneration** | **2021 R** | 2020 R | **2021 R** | **2021 R** | 2020 R | **2021 R** | 2020 R | 2020 R | **2021 R** | 2020 R |
| Salary | **5 418 952** | 5 422 836 | **1 866 091** | **2 922 288** | 8 430 191 | **1 617 039** | 6 501 664 | 833 333 | **11 824 370** | 21 188 024 |
| Medical Aid | **119 604** | 115 128 | **156 811** | **–** | – | **55 632** | 188 280 | – | **332 047** | 303 408 |
| Retirement benefits | **411 749** | 412 862 | **159 877** | **51 466** | 154 680 | **89 621** | 537 727 | – | **712 713** | 1 105 269 |
| Other employee benefits | **59 008** | 58 487 | **210 403** | **26 247** | 75 102 | **7 726** | 31 642 | 28 842 | **303 384** | 194 073 |
| **Total fixed remuneration** | **6 009 313** | **6 009 313** | **2 393 182** | **3 000 001** | **8 659 973** | **1 770 018** | **7 259 313** | **862 175** | **13 172 514** | **22 790 774** |
| Non-deferred cash award[1] | **9 000 000** | – | **5 500 000** | **–** | – | **–** | 3 300 000 | – | **14 500 000** | 3 300 000 |
| Deferred share award [2] | **8 000 000** | 4 800 000 | **4 500 000** | **–** | 5 000 000 | **–** | – | – | **12 500 000** | 9 800 000 |
| **Total short-term incentives**[3] | **17 000 000** | **4 800 000** | **10 000 000** | **–** | **5 000 000** | **–** | **3 300 000** | **–** | **27 000 000** | **13 100 000** |
| Value of vested long-term awards[3] | **2 735 115** | 5 007 063 | **786 762** | **–** | – | **2 079 592** | 6 974 155 | – | **5 601 469** | 11 981 218 |
| Dividend equivalents/service credits received on vesting awards | **611 062** | 1 838 139 | **100 700** | **–** | – | **1 599 258** | 2 320 148 | – | **2 311 020** | 4 158 287 |
| **Total long-term incentives**[4] | **3 346 177** | **6 845 202** | **887 462** | **–** | – | **3 678 850** | **9 294 303** | **–** | **7 912 489** | **16 139 505** |
| **Other payments**[5] | **–** | **–** | **816 546** | **30 466 273** | – | **893 316** | **–** | **–** | **32 176 135** | **–** |
| **Total single-figure remuneration** | **26 355 490** | **17 654 515** | **14 097 190** | **33 466 274** | **13 659 973** | **6 342 184** | **19 853 616** | **862 175** | **80 261 138** | **52 030 279** |

1 Executive directors and prescribed officers did not receive cash short-term incentive awards in respect of 2020 performance, aligned to the Prudential Authority guidance. In light of the passing of Peter Matlare on 7 March 2021, the Board approved the payment in cash of the short-term incentive that was awarded to him, as deferred awards would, in the normal course, be accelerated in the event of the death of a participant. Short-term incentive awards in respect of 2021 performance will be subject to deferral into Absa Group shares on 50% of the value of the award that exceeds R1m, with the balance paid as cash, as set out in the Remuneration Policy.

2 All deferral in respect of the short-term incentive award made for 2021 performance will be in Absa Group shares. Deferred awards disclosed in 2021 will be granted in April 2022. The full award made in respect of 2020 performance was deferred into Absa Group shares, with vesting in equal proportions on the 1st, 2nd and 3rd anniversaries of the award date. Release will be subject to the additional CET1 safety and soundness validation. The award was granted in April 2021.

3 Short-term incentives are not defined as incentives that are settled in the next 12 months after the reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's Remuneration Policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period. (three years). For deferred short-term incentives awarded in 2021 for 2020 performance, an additional CET1 safety and soundness validation will apply at vesting. In contrast to this, the long-term incentives relate to awards which have future Group performance criteria that will determine the final vesting outcome, in addition to a continued service condition. Total awarded remuneration disclosed in 2020 includes the fixed remuneration paid during 2020, the total short-term incentive in respect of 2020 performance (consisting only of a deferred award granted in April 2021, other than in respect of Peter Matlare) and the face value of the long-term incentive to be granted in April 2021. Amounts disclosed in 2021 follow the same principle, except that the short-term incentive awarded for 2021 performance consist of a cash award and a deferred share award.

4 The 2019 long-term incentive, which vests in respect of the performance period ending 31 December 2021, is included in the 2021 single-figure remuneration for executive directors and prescribed officers. The actual value of the vesting to accrue to each participant will be based on the share price on vesting date (in equal tranches on 18 March 2022, 2023 and 2024, and 2 September 2022) and will include any dividend shares (based on dividends declared during the vesting period, and referenced to the number of shares that will vest following application of the performance targets). However, for the purpose of the 2021 disclosure, values are reported using the 31 December 2021 share price, as the publication date of the Annual Financial Statements was before the vesting date. In light of the passing of Peter Matlare on 7 March 2021, the Board approved the payment in cash of the long-term incentive that was awarded to him (adjusted for performance measurement), as long-term awards would, in the normal course, be accelerated in the event of the death of a participant. The amount included under 2020 reflects the value vested in terms of the 2017 long-term incentive in August 2020.

5 "Other payments" reflect all payments made to Daniel Mminele on termination of employment (see note 7) and for other executive directors and prescribed offices, the encashment of leave as a consequence of changes to our leave policy. For Peter Matlare, the payment is in respect of accrued leave to the date of his passing - excludes any death benefit due from Group benefit funds.

6 Punki Modise was appointed as the Interim Financial Director effective 23 April 2021. Fixed remuneration amounts shown are prorated from appointment date. Both STI and LTI shown at full value.

7 Daniel Mminele stepped down as a Director on 20 April 2021 and ceased being an employee on 30 April 2021. All remuneration paid to him in 2021 has been included in this disclosure. This includes separation payments, contractual notice payments and leave payments which are shown as "Other payments".

8 Rene van Wyk served as Chief Executive from 1 January to 14 January 2020. He was an executive director from 15 January to 31 January 2020. Remuneration received in 2020 as a non-executive director from 1 August 2020 to 31 December 2020 is set out in the table on non-executive directors' remuneration.

# Executive directors and prescribed officers: remuneration tables *continued*

## Combined tables for 2021 total remuneration *continued*

| Prescribed officers | Arrie Rautenbach | | Charles Russon | | Total | |
|---|---|---|---|---|---|---|
| **Awarded Remuneration** | **2021 R** | 2020 R | **2021 R** | 2020 R | **2021 R** | 2020 R |
| Salary | **6 444 479** | 6 450 191 | **5 585 822** | 5 593 432 | **12 030 301** | 12 043 623 |
| Medical Aid | **161 892** | 155 820 | **202 428** | 194 844 | **364 320** | 350 664 |
| Retirement benefits | **158 651** | 159 261 | **162 055** | 162 550 | **320 706** | 321 811 |
| Other employee benefits | **494 316** | 494 132 | **59 008** | 58 487 | **553 324** | 552 619 |
| **Total fixed remuneration** | **7 259 338** | **7 259 404** | **6 009 313** | **6 009 313** | **13 268 651** | **13 268 717** |
| Non-deferred cash award[1] | **6 750 000** | – | **6 750 000** | – | **13 500 000** | – |
| Deferred share award[2] | **5 750 000** | 4 800 000 | **5 750 000** | 4 000 000 | **11 500 000** | 8 800 000 |
| **Total short-term incentive** | **12 500 000** | **4 800 000** | **12 500 000** | **4 000 000** | **25 000 000** | **8 800 000** |
| **Face value of long term incentive award (on-target award)[3, 5]** | **17 000 000** | **10 250 000** | **10 000 000** | **7 000 000** | **27 000 000** | **17 250 000** |
| **Other payments[4]** | **2 007 617** | – | – | – | **2 007 617** | – |
| **Total awarded remuneration** | **38 766 955** | **22 309 404** | **28 509 313** | **17 009 313** | **67 276 268** | **39 318 717** |

[1] Executive directors and prescribed officers did not receive cash short-term incentive awards in respect of 2020 performance, aligned to the Prudential Authority guidance. Short-term incentive awards in respect of 2021 performance will be subject to deferral into Absa Group shares on 50% of the value of the award that exceeds R1m, with the balance paid as cash, as set out in the Remuneration Policy.

[2] All deferral in respect of the short-term incentive award made for 2021 performance will be in Absa Group shares. Deferred awards disclosed in 2021 will be granted in April 2022. The full award made in respect of 2020 performance was deferred into Absa Group shares, with vesting in equal proportions on the 1st, 2nd and 3rd anniversaries of the award date. Release will be subject to the additional CET1 safety and soundness validation. The award was granted in April 2021.

[3] This is the "on-target" value of the award. The awards reflected in 2020 were made in April 2021, and those reflected in 2021 are to be made in April 2022.

[4] "Other payments" reflect the encashment of leave as a consequence of changes to our leave policy.

[5] This includes an additional award of R4.5m relative to what was disclosed in the 2021 Annual Financial Statements, which was made pursuant to Arrie Rautenbach's appointment as Group Chief Executive on 29 March 2022.

# Executive directors and prescribed officers: remuneration tables *continued*

## Combined tables for 2021 total remuneration *continued*

| Prescribed officers | Arrie Rautenbach | | Charles Russon | | Total | |
|---|---|---|---|---|---|---|
| **Single-figure remuneration** | **2021 R** | 2020 R | **2021 R** | 2020 R | **2021 R** | 2020 R |
| Salary | **6 444 479** | 6 450 191 | **5 585 822** | 5 593 432 | **12 030 301** | 12 043 623 |
| Medical Aid | **161 892** | 155 820 | **202 428** | 194 844 | **364 320** | 350 664 |
| Retirement benefits | **158 651** | 159 261 | **162 055** | 162 550 | **320 706** | 321 811 |
| Other employee benefits | **494 316** | 494 132 | **59 008** | 58 487 | **553 324** | 552 619 |
| **Total fixed remuneration** | **7 259 338** | **7 259 404** | **6 009 313** | **6 009 313** | **13 268 651** | **13 268 717** |
| Non-deferred cash award[1] | **6 750 000** | – | **6 750 000** | – | **13 500 000** | – |
| Deferred share award[2] | **5 750 000** | 4 800 000 | **5 750 000** | 4 000 000 | **11 500 000** | 8 800 000 |
| **Total short-term incentives** | **12 500 000** | **4 800 000** | **12 500 000** | **4 000 000** | **25 000 000** | **8 800 000** |
| Value of vested long-term awards[3] | **2 803 482** | 5 364 716 | **1 914 565** | 4 828 237 | **4 718 047** | 10 192 953 |
| Dividend equivalents/service credits received on vesting awards | **654 991** | 2 348 020 | **450 541** | 2 082 134 | **1 105 532** | 4 430 154 |
| **Total long-term incentives** | **3 458 473** | **7 712 736** | **2 365 106** | **6 910 371** | **5 823 579** | **14 623 107** |
| **Other payments[4]** | **2 007 617** | – | **–** | – | **2 007 617** | – |
| **Total single-figure remuneration** | **25 225 428** | **19 772 140** | **20 874 419** | **16 919 684** | **46 099 847** | **36 691 824** |

[1] Executive directors and prescribed officers did not receive cash short-term incentive awards in respect of 2020 performance, aligned to the Prudential Authority guidance. Short-term incentive awards in respect of 2021 performance will be subject to deferral into Absa Group shares on 50% of the value of the award that exceeds R1m, with the balance paid as cash, as set out in the Remuneration Policy.

[2] All deferral in respect of the short-term incentive award made for 2021 performance will be in Absa Group shares. Deferred awards disclosed in 2021 will be granted in April 2022. The full award made in respect of 2020 performance was deferred into Absa Group shares, with vesting in equal proportions on the 1st, 2nd and 3rd anniversaries of the award date. Release will be subject to the additional CET1 safety and soundness validation. The award was granted in April 2021.

[3] The 2019 long-term incentive, which vests in respect of the performance period ending 31 December 2021, is included in the 2021 single-figure remuneration for executive directors and prescribed officers. The actual value of the vesting to accrue to each participant will be based on the share price on vesting date (in equal tranches on 18 March 2022, 2023 and 2024) and will include any dividend shares (based on dividends declared during the vesting period, and referenced to the number of shares that will vest following application of the performance targets). However, for the purpose of the 2021 disclosure, values are reported using the 31 December 2021 share price, as the publication date of the Annual Financial Statements was before the vesting date. The amount included under 2020 reflects the value vested in terms of the 2017 long-term incentive in August 2020.

[4] "Other payments" reflect the encashment of leave as a consequence of changes to our leave policy.

## Supplementary information



# Board committee details as at 31 December 2021

The following legend and changes apply to the tables as presented on page 105 and 106.

**Legend**

| | |
|---|---|
| ED | Executive director |
| ExCo | Executive Committee |
| IC | Independent chairman |
| ID | Independent director |
| LID | Lead independent director |
| NED | Non-executive director |
| CCO | Chief Credit Officer |
| CIA | Chief Internal Auditor |

**Changes in 2021 (date order)**

[1] Prabashni Naidoo joined the Group in January. She is an attendee of GACC, GRCMC and ITC.
[2] Punki Modise joined the Board, GRCMC, SSEC, ITC, GCRC and MC in April. She is also an attendee of DAC, GACC, RemCo, and BFC.
[3] Jason Quinn joined the SSEC in April.
[4] Deon Raju joined the ExCo in June and is an attendee of GACC, GRCMC, ITC and MC. He is a member of GCRC.
[5] Wilhelm Krige joined the ExCo in June and is a member of ITC.
[6] Rose Keanly joined the SSEC in July.
[7] René van Wyk joined GACC in September.
[8] Saviour Chibiya joined ExCo in November and is an attendee of SSEC.
[9] John Cummins became a member of GRCMC and GCRC in November.
[10] Sipho Pityana was removed in November.
[11] Alex Darko joined DAC in December.
[12] Sello Moloko joined DAC in December, as well as SSEC, GRCMC and RemCo.
[13] Fulvio Tonelli joined the BFC in November.
[14] Charles Russon became an attendee of SSEC in July.

**Executive Committee (ExCo)**

| | |
|---|---|
| Jason Quinn | Interim Group Chief Executive Officer (from 20 April 2021) |
| Punki Modise | Interim Group Financial Director (from 23 April 2021) |
| Deon Raju | Chief Risk Officer (from 1 June 2021) |
| Wilhelm Krige | Interim Group Chief Information and Technology Officer (from 30 June 2021) |
| Saviour Chibiya | Group Executive: ARO (from 1 November 2021) |
| Prabashni Naidoo | Chief Internal Auditor |
| Akash Singh | Group Chief Compliance Officer |
| Arrie Rautenbach | Chief Executive: RBB SA |
| Bongiwe Gangeni | Deputy Chief Executive: RBB SA |
| Charles Russon | Chief Executive: CIB |
| Charles Wheeler | Group General Counsel |

**As at 31 December 2021**

Board committee details reflect membership as at 31 December 2021 as these were those charged with governance for the period under review and accountable for the decisions and oversight during 2021.

However, the Board and Executive Committee details on page 82 and 83, reflects composition as at 28 March 2022.

## Directors' Affairs Committee (DAC)

Assists the Board in establishing and maintaining an appropriate system of corporate governance aligned with King IV, the corporate governance provisions of the Banks Act and other relevant regulations for the Group and material subsidiaries. This includes composition and continuity of the Board and its committees; the induction of new Board members; director training and skills development; director independence and directors' conflicts and disclosures of interests; effectiveness evaluation of the Board and its committees, reviewing and proposing governing policies; monitoring the governing structures of subsidiary entities and considering matters of regulatory and reputational risk.

### Members

- ID Francis Okomo-Okello
- ID Mark Merson
- ID Alex Darko[11]
- ID Sello Moloko[12]
- ID Tasneem Abdool-Samad
- IC, ID Wendy Lucas-Bull (Chairman)

### Attendees

- ED Jason Quinn
- ED Punki Modise[2]

**Committee tenure**


## The Group Audit and Compliance Committee (including the Disclosure Committee) (GACC)

Is accountable for the annual financial statements, accounting policies and reports; and overseeing the quality and integrity of the Group's integrated reporting. It is the primary forum for engagement with internal and external audit and operational risk. The committee monitors the Group's internal control and compliance environment. The committee recommends the appointment of external auditors to the Board and shareholders.

### Members

- ID Alex Darko
- ID René van Wyk[7]
- ID Daisy Naidoo
- ID Swithin Munyantwali
- ID Tasneem Abdool-Samad (Chairman)

### Attendees

- ED Punki Modise[2]
- NED Fulvio Tonelli
- ED Jason Quinn
- CIA Prabashni Naidoo[1]
- ExCo Deon Raju[4]
- ExCo Akash Singh

### Invitee

- IC, ID Wendy Lucas-Bull

**Committee tenure**


## Group Risk and Capital Management Committee (GRCMC)

Assists the Board in overseeing the risk, capital and liquidity management of the Group by reviewing and monitoring (i) the Group's risk profile against its set risk appetite; (ii) its capital, funding and liquidity positions, including in terms of applicable regulations; and (iii) the implementation of the Enterprise Risk Management Framework and the 12 principal risks defined therein. It receives assurance that processes are in place to comply with laws and regulations pertaining to risk, capital, funding and liquidity management in all relevant jurisdictions.

### Members

- ID John Cummins[9]
- ED Jason Quinn
- ED Punki Modise[2]
- NED Fulvio Tonelli
- ID Mark Merson (Chairman)
- ID René van Wyk
- ID Rose Keanly
- ID Tasneem Abdool-Samad
- ID Sello Moloko[12]
- IC, ID Wendy Lucas-Bull

### Attendees

- ExCo Akash Singh
- ExCo Deon Raju[4]
- CIA Prabashni Naidoo[1]

**Committee tenure**

# Board committee details continued

## Remuneration Committee (RemCo)

Sets and oversees the implementation of the Group's Remuneration Policy principles to deliver fair and responsible pay aligned with current and emerging market practice, to meet regulatory and corporate governance requirements and to align the behaviour of executives with the strategic direction of the Group. It approves the total remuneration spend, including fixed pay, short-term and long-term incentives, and any other remuneration arrangements, and the particulars of a defined senior population. It also considers and approves the Group's remuneration disclosure policies and ensures that disclosures are accessible, understandable, accurate, complete and transparent; and that the Group remunerates fairly and responsibly across the Group in the context of overall employee remuneration, with a particular focus on remuneration differentials.

### Members

ID Alex Darko
ID Daisy Naidoo
ID Ihron Rensburg
ID Rose Keanly
ID Sello Moloko[12]
IC, ID Wendy Lucas-Bull (Chairman)

### Attendees

ED Jason Quinn
ED Punki Modise[2]
ExCo Arrie Rautenbach

**Note:**
ID Sipho Pityana (Chairman)[10] was removed from the Board in November 2021 and Rose Keanly assumed the role as Chairman from 8 February 2022.

### Committee tenure


## Social, Sustainability and Ethics Committee (SSEC)

Monitors key organisational health indicators relating to social and economic development; responsible corporate citizenship; the environment, health and public safety; labour and employment; conduct and ethics; consumer relationships; stakeholder management and transformation; as well as the Group's activities relating to its role in Africa's growth and sustainability and the impact on the Group's employees, customers, and environment. It applies the recommended practices and regulation as outlined in King IV and the Companies Act in executing its mandate.

### Members

ID Francis Okomo-Okello (Chairman)
ID Ihron Rensburg
ID Nonhlanhla Mjoli-Mncube
ID Swithin Munyantwali
ID Rose Keanly[6]
ID Sello Moloko[12]
ED Jason Quinn[3]
IC, ID Wendy Lucas-Bull

### Attendees

ExCo Saviour Chibiya[8]
ExCo Arrie Rautenbach
ExCo Charles Russon[14]
ED Punki Modise[2]

### Committee tenure


## Information Technology Committee (ITC)

Assists the Board with effective oversight and governance of technology and information for Absa. King IV distinguishes between governance oversight of (i) the organisation's information assets, and (ii) the technology infrastructure used to generate, process and store that information. The focus is on resilience and stability; architecture; data management; security (cyber and other), and digitisation.

### Members

ID Alex Darko (Chairman)
NED Fulvio Tonelli
ED Jason Quinn
ED Punki Modise[2]
ID Rose Keanly
IC, ID Wendy Lucas-Bull
ExCo Wilhelm Krige[5]

### Attendees

ExCo Akash Singh
CIA Prabashni Naidoo[1]
ExCo Arrie Rautenbach
ExCo Deon Raju[4]
ExCo Charles Russon

### Committee tenure


## Board Finance Committee (BFC)

Assists the Board in reviewing and approving certain levels of investment, outsourcing, acquisition and divestments within the committee's mandate; considers and recommends to the Board the short-term and medium-term financial plan underpinning the Group strategy; and considers and finalises the profit commentary as it relates to the interim and year-end financial results. It also approves the publication of the dividend declarations within the parameters determined by the Board.

### Members

ID Mark Merson
NED Fulvio Tonelli[13]
ID Nonhlanhla Mjoli-Mncube
NED René van Wyk (Chairman)
ID Tasneem Abdool-Samad
IC, ID Wendy Lucas-Bull

### Attendees

ED Jason Quinn
ED Punki Modise[2]

### Committee tenure


## Group Credit Risk Committee (GCRC)

Considers and approves all large exposures that exceed 10% of qualifying capital and reserves, including single-name exposures and key country and sovereign risk limits, with the credit risk appetite of the Group as approved by the Board from time to time. It also has oversight over credit risk and monitors industry, sector, and single-name concentration risks, trends and exposures.

### Members

CCO Anthony Harvett
ExCo Deon Raju[4]
ED Punki Modise[2]
ID Daisy Naidoo
NED Fulvio Tonelli
ED Jason Quinn
ID Mark Merson (Chairman)
NED René van Wyk
ID John Cummins[9]
IC, ID Wendy Lucas-Bull

### Committee tenure


## Models Committee (MC)

The Models Committee is the designated committee tasked with the review of Absa Group's material models and as required by the Prudential Authority.

### Members

ExCo Arrie Rautenbach
ExCo Charles Russon
ExCo Deon Raju[4]
ED Punki Modise[2]
ED Jason Quinn (Chairman)

### Committee tenure

# Abbreviations

| | |
|---|---|
| **AGM** | Annual general meeting |
| **AI** | Artificial intelligence |
| **AMMF** | Absa Money Market Fund |
| **AREP** | African Rainbow Energy and Power |
| **ARO** | Absa Regional Operations |
| **AWS** | Amazon Web Services |
| **BASA** | Banking Association of South Africa |
| **BFC** | Board Finance Committee |
| **CAPAD** | Capital adequacy |
| **CIB** | Corporate and Investment Bank |
| **CoDI** | Corporation for Deposit Insurance |
| **CPF** | Counter Proliferation Finance |
| **CPI** | Consumer price index |
| **CSP** | Concentrated Solar Power |
| **DAC** | Directors' Affairs Committee |
| **DIS** | Deposit insurance scheme |
| **EDD** | Enhanced due diligence |
| **EDGE** | Excellence in Design for Greater Efficiencies |
| **ESG** | Environmental, social and governance |
| **FAIS** | Financial Advisory and Intermediaries Services |
| **FATF** | Financial Action Task Force |
| **FSCA** | Financial Sector Conduct Authority |
| **GACC** | Group Audit and Compliance Committee |
| **GBVF** | Gender-based violence and femicide |
| **GCRC** | Group Credit Risk Committee |
| **IBOR** | Interbank offered rates |
| **IFC** | International Finance Corporation |
| **ILO** | International Labour Organization |
| **IoT** | Internet of things |
| **IRB** | Internal rating-based |
| **JIBAR** | Johannesburg interbank average rate |
| **JSE** | Johannesburg Stock Exchange |
| **LTI** | Long-term incentives |
| **MC** | Models Committee |
| **MIGA** | Multilateral Investment Guarantee Agency |
| **MSCI** | Morgan Stanley Capital International |
| **NPS** | Net promoter score |
| **OECD** | Organisation for Economic Co-Operation and Development |
| **PASA** | Payments Association of South Africa |
| **POPIA** | Protection of Personal Information Act |
| **PoS** | Point-of-sale |
| **PRB** | Principles for Responsible Banking |
| **RBB** | Retail and Business Banking |
| **REIPPP** | Renewable Energy Independent Power Producer Procurement |
| **RMCP** | Risk Management and Compliance Programme |
| **SA** | South Africa |
| **SARB** | South African Reserve Bank |
| **SASRIA** | South African Special Risk Insurance Association |
| **SASSA** | South African Social Security Agency |
| **SMME** | Small, micro and medium enterprises |
| **SSEC** | Social, Sustainability and Ethics Committee |
| **TCFD** | Task Force on Climate-related Financial Disclosures |
| **TD&I** | Transformation, diversity and inclusion |
| **TERS** | Temporary Employee Relief Scheme |
| **UK** | United Kingdom |
| **US** | United States |

www.absa.africa

# Contact information

## Absa Group Limited

Incorporated in the Republic of South Africa
Registration number: 1986/003934/06
JSE share code: ABG
ISIN: ZAE000255915

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