

ABSA GROUP LIMITED

Incorporated in the Republic of South Africa
(Registration number: 1986/003934/06)
JSE share code: ABG
ISIN: ZAE000255915
Bond issuer code: ABGI
("Absa Group" or "Group" or "Absa")

PROPOSED ABSA B-BBEE TRANSACTION

Shareholders are advised that Absa proposes to enter into a transaction for 7% of its issued share capital (post the issuance of new shares), comprising:

- a Corporate Social Investment ("**CSI**") trust (the "**CSI Trust**") for 4% of Absa's issued share capital (post the issuance of new shares), which will constitute a broad-based ownership scheme as contemplated in the Financial Sector Code (the "**CSI Scheme**"); and
- a staff trust (the "**Staff Trust**") for 3% of Absa's issued share capital (post the issuance of new shares), which will be an equity-settled staff incentivisation scheme for staff members of Absa group companies in South Africa (the "**SA Staff Scheme**"),

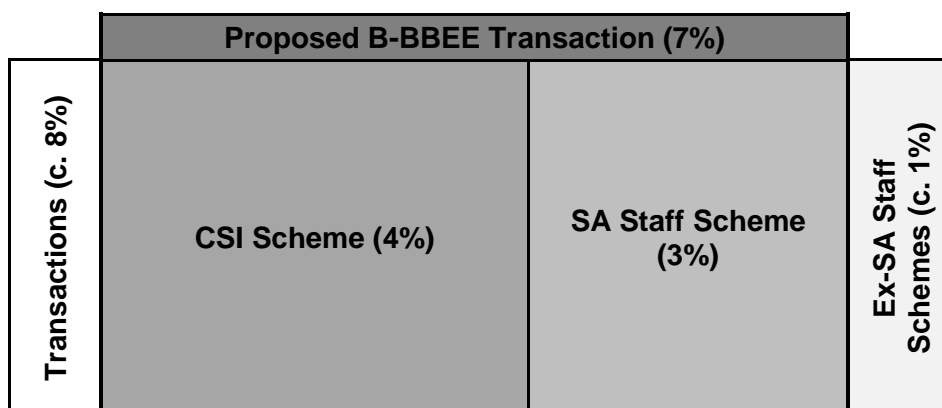
equating to c. R11,162 million based on the 10-day volume weighted average price ("**10-day VWAP**") of R178.29 as at 22 March 2023 ("**Reference Share Price**"), subject to the conditions precedent outlined in paragraph 5 below (the "**Proposed B-BBEE Transaction**").

Both the CSI Scheme and the SA Staff Scheme will enhance Absa's Broad-Based Black Economic Empowerment ("**B-BBEE**") credentials and assist Absa in achieving the equity ownership targets set out in the Financial Sector Code, such that Absa and its South African subsidiaries, including Absa Bank Limited ("**Absa Bank**"), can sustainably achieve at least 25% ownership by black people (as defined in legislation in South Africa).

In recognition of the valued role that all staff play in the group's success it is proposed that staff of Absa group companies outside South Africa will also participate, via a cash-settled phantom share staff incentivisation scheme in their respective jurisdictions equivalent in size in aggregate to approximately 1% of Absa's issued share capital (post the issuance of new shares) ("**Ex-SA Staff Schemes**").

The Proposed B-BBEE Transaction and the Ex-SA Staff Schemes are referred to collectively as the "**Transactions**".

Shareholders will be asked to approve the issue of Absa shares envisioned to give effect to the Proposed B-BBEE Transaction.



1. RATIONALE FOR THE TRANSACTIONS

The Proposed B-BBEE Transaction is intended to benefit (i) a broad range of B-BBEE beneficiaries from previously disadvantaged communities across South Africa, and (ii) all eligible staff in South Africa, with approximately 82% of the value of the SA Staff Scheme attributable to African, Indian and Coloured (“**Black**”) staff.

Both the CSI Scheme and the SA Staff Scheme will enhance Absa’s B-BBEE credentials and assist Absa in achieving the equity ownership targets set out in the Financial Sector Code that require Absa’s South African subsidiaries, including Absa Bank Limited (“**Absa Bank**”), to have at least 25% Black ownership.

Notwithstanding Absa’s current Level 1 B-BBEE rating, Absa’s current Black equity ownership per the B-BBEE scorecard in respect of the 2022 financial year is 17.44%. Following the implementation of the Proposed B-BBEE Transaction, Absa expects to increase its Black equity ownership to be sustainably above 25%. The Proposed B-BBEE Transaction is also expected to contribute approximately 6.75 additional ownership points to Absa’s scorecard, leaving it sustainably with a Level 1 B-BBEE rating.

Absa believes it is imperative to recognise the valued role all staff play in Absa’s success by including staff of non-South African subsidiaries in the Ex-SA Staff Schemes, which will contain terms and provisions that will be broadly equivalent to the terms proposed for the South African staff in the SA Staff Scheme.

2. OVERVIEW OF PARTICIPANTS

Participation in the Transactions will be broad-based and will be split between communities and Absa staff.

2.1 CSI Scheme

The CSI Trust will operate for the benefit of a broad range of beneficiaries from previously disadvantaged communities across South Africa. The beneficiaries will be selected and reviewed annually, in accordance with the trust deed of the CSI Trust, and will, where practical, take cognisance of Absa’s Active Force For Good strategy.

The CSI Trust will constitute a broad-based ownership scheme as contemplated in the Financial Sector Code. The CSI Trust will be “evergreen” and it is intended that it will be an ongoing partner to Absa in contributing to the enhancement of the broader South African communities within which Absa operates.

The CSI Trust will focus on education and youth employability and any change in focus will require compliance with formal requirements, including the prior written consent of Absa. The selection process of the beneficiaries will be robust with defined processes and governance.

2.2 Staff Schemes

2.2.1 SA Staff Scheme (South Africa)

The SA Staff Scheme will be an inclusive scheme and will therefore, from the outset, include all of Absa’s approximately 26,000 eligible permanent staff members in South Africa, regardless of race or nationality. The SA Staff Scheme will, however, be structured to enhance the participation of the approximately 20,500 eligible South African Black staff members who will receive an additional 20% allocation relative to white and foreign staff.

2.2.2 Ex-SA Staff Schemes (outside of South Africa)

Absa believes it is imperative to recognise the valued role all staff play in Absa's success by inviting Absa group companies outside South Africa to participate via cash-settled staff schemes in their respective jurisdictions, which will contain terms and provisions that will be notionally equivalent to the terms proposed for the SA Staff Scheme.

3. STRUCTURE OF THE TRANSACTIONS

The Proposed B-BBEE Transaction will comprise two parts:

- The CSI Scheme for 4% of Absa's issued share capital (post the issuance of the new shares), which will constitute a broad-based ownership scheme; and
- The SA Staff Scheme for 3% of Absa's issued share capital (post the issuance of the new shares), which will be an equity-settled staff incentivisation scheme for staff of Absa group companies in South Africa.

The 7% or 62.6 million Absa shares (the "**Transaction Shares**") to be included in the Proposed B-BBEE Transaction will be sourced from:

- The existing approximately 16.0 million Absa shares currently held in the Absa Empowerment Trust ("**AET**"), 12.7 million of which were obtained as part of the separation from Barclays PLC in 2017 and the balance of which were subsequently acquired by the AET using dividends received from its existing Absa shares. These shares are currently held by Newshelf 1405 (RF) Proprietary Limited ("**Newshelf 1405**") ("**Existing Shares**"); and
- 46.6 million new Absa shares which will, if approved by Absa shareholders, be sourced through a specific issue of shares for cash to Newshelf 1405 by Absa (the "**Specific Issue Shares**") at a price equal to the 10-day VWAP ending on the last practical date before the Proposed B-BBEE Transaction is implemented on 1 September 2023.

The Staff Trust and the CSI Trust will hold their interest in Absa through ordinary and A shares in Newshelf 1405, respectively. The ordinary shares held by the Staff Trust will benefit from existing cash within Newshelf 1405 at the Effective Date which, together with the new preference share funding from Absa and the capital contribution from Absa Bank referred to below, will indirectly entitle the Staff Trust, as ordinary shareholder, to 26.8 million Absa shares on a look-through basis. The A shares to be held by the CSI Trust will benefit from the Existing Shares held by Newshelf 1405 at the Effective Date which together with the new preference share funding will indirectly entitle the CSI Trust, as an A share shareholder, to 35.8 million Absa shares on a look-through basis.

Through the rights attaching to the ordinary and A shares in Newshelf 1405 respectively, the Staff Trust and the CSI Trust will effectively enjoy the net economic benefit of the Absa shares (being 3% in relation to the Staff Trust and 4% in relation to the CSI Trust). The ordinary and A shares in Newshelf 1405 will in aggregate have equal voting rights so neither the Staff Trust nor the CSI Trust will control Newshelf 1405. The board composition of Newshelf 1405 will provide for representatives from the Staff Trust, the CSI Trust, and Absa as well as 1 independent director.

The Ex-SA Staff Schemes will be cash-settled phantom share staff incentivisation schemes equivalent in value to approximately 1% in aggregate of Absa's issued share capital for staff of Absa group companies outside South Africa.

3.1 CSI Scheme

The CSI Trust will hold 100% of the A shares in Newshelf 1405. This will be equivalent to an indirect interest of 4% in Absa's enlarged issued share capital immediately after implementation of the Transactions.

The CSI Trust will conduct "public benefit activities" as defined in section 30(1) of the Income Tax Act, 58 of 1962 ("**Act**") and will apply for registration as a "public benefit organisation", as defined in section 30(1) of the Act.

The CSI Scheme will be "evergreen", and from inception the CSI Trust will benefit (i) directly from its attributable share of a trickle dividend, which will equate to approximately 25% of the annual Absa dividend in respect of the indirect shareholding in Absa held by the CSI Trust (subject to a minimum loan to value cover ratio being maintained), and (ii) indirectly in that Newshelf 1405 will use the balance of the Absa dividend it receives to service and pay down related funding.

3.2 Staff Schemes

3.2.1 SA Staff Scheme

The Staff Trust will hold 100% of the ordinary shares in Newshelf 1405. This will be equivalent to an indirect interest of 3% in Absa's enlarged issued share capital immediately after implementation of the Transactions.

The SA Staff Scheme will be open to all eligible permanent staff of Absa group companies in South Africa, including white and foreign staff, who are employed on 1 September 2023, as well as eligible permanent staff who join between 1 September 2023 and 31 August 2026. It is anticipated that approximately 82% of the value of the SA Staff Scheme will be for the benefit of Black staff.

The allocations to staff of Absa group companies in South Africa will primarily be funded by Absa Bank (or the relevant South African Absa employing company), with the intention being that an equal amount of funding will be provided for each participating staff member. Black staff will receive an allocation which is approximately 20% higher than that for white and foreign staff in South Africa, with this additional allocation for Black staff funded from the existing cash resources of Newshelf 1405.

Participating staff will be awarded notional units in the Staff Trust corresponding to an allocation of the underlying Absa shares held by Newshelf 1405, net of the value of the related preference share funding in Newshelf 1405. The award of notional units in the Staff Trust to participating staff will be for no consideration.

During the period of the SA Staff Scheme, the participants will benefit (i) directly from their attributable share of a trickle dividend paid to the Staff Trust, which will equate to approximately 25% of the annual Absa dividend in respect of the indirect shareholding held by the Staff Trust, net of any applicable taxes, and (ii) indirectly in that Newshelf 1405 will use the balance of the Absa dividend it receives to service and pay down related funding.

Except in certain limited circumstances, a staff member will cease to be a participant of the SA Staff Scheme if they cease to be employed by an Absa group company prior to the vesting date. Notional units in the Staff Trust forfeited prior to the vesting date will be retained in the Staff Trust and reallocated to eligible staff who join in the first three years of the SA Staff Scheme on a first-come-first-served basis, such that the new staff receive an allocation equal to that received by participating staff on 1 September 2023.

The SA Staff Scheme's Absa shares will vest to the participants after 5 years, at which time the participants will become direct and beneficial holders of unencumbered shares in Absa. At vesting, a portion of the Staff Trust's indirect 3% stake in Absa will be crystallised to raising funding to enable Newshelf 1405 to:

- settle the then outstanding preference share funding applicable to the Staff Trust's shareholding in Newshelf 1405; and
- pay cash to the Staff Trust to allow staff members to settle their personal income tax liability arising from the vesting.

Staff will receive their net Absa shares upon vesting (after settling outstanding funding and taxes) as a distribution from the Staff Trust.

3.2.2 Ex-SA Staff Schemes

The value of all of the Ex-SA Staff Schemes will be equivalent to approximately 1% of the issued share capital of Absa and will be funded by each participating Absa group company outside South Africa.

Subject to the approval of the respective boards of the participating Absa group companies outside of South Africa and any other relevant approvals required, individual schemes will be set up for each participating non-South African group company, with the intention that participating staff will receive an allocation in cash (not Absa shares) of the same value and on terms similar to that of all the SA Staff Scheme participants (not including the additional 20% allocation for Black South African staff) and that vesting will also be after 5 years.

The use of separate Ex-SA Staff Schemes in each participating Absa group company jurisdiction outside of South Africa will allow Absa to enable broad staff participation while providing flexibility to accommodate the complex tax and funding issues relating to the number of jurisdictions involved.

3.3 Overview of the funding

The CSI Scheme and the SA Staff Scheme will be funded, assuming the Reference Share Price, as set out below:

R'million	CSI Scheme	SA Staff Scheme	Proposed B-BBEE Transaction
Existing Absa shares held by Newshelf 1405	2,849	-	2,849
Cash from Absa employer companies in South Africa	-	1,807	1,807
Existing cash in Newshelf 1405	-	330	330
Total Ordinary Equity	2,849	2,137	4,986
Cash from Absa Group, subscription for preference shares in Newshelf 1405	3,529	2,647	6,176
Total Equity	6,378	4,784	11,162
Loan to value	55.3%	55.3%	55.3%

The ordinary equity funding will comprise:

- the Existing Shares held by Newshelf 1405, comprising Absa shares obtained as part of the agreed separation from Barclays PLC as well as Absa shares subsequently purchased using dividends received, to be applied for the benefit of the CSI Trust;
- a cash contribution from Absa employer companies in South Africa, to fund the participation of qualifying staff in South Africa equally; and
- the existing cash in Newshelf 1405, to fund the 20% additional allocation to participating Black staff.

The remaining funding required for the Proposed B-BBEE Transaction will be in the form of preference shares issued to Absa Group by Newshelf 1405, which have been priced and structured on arms-length commercial terms. The key terms of the preference shares are set out below:

Salient Features – Based on Reference Share Price		
	Senior	Mezzanine
Subscription Amount	R4,465 million	R1,711 million
Tenor	5 years	
Pricing Mechanics		
<i>Senior Preference Share Dividend Rate (% of Prime)</i>	72%	-
<i>Mezzanine Preference Share Dividend Rate (% of Prime)</i>	-	90%

The senior preference shares issued to Absa will be secured by the underlying Absa ordinary shares held by Newshelf 1405 and will be subject to market-related net asset value cover trigger levels of 1.75x. This is waivable by Absa Group at its election.

The initial loan to value ratio within Newshelf 1405 will be approximately 55%, comprising the senior (c. 40%) and mezzanine (c. 15%) preference shares. As such, the Proposed B-BBEE Transaction will be sustainably geared from the outset. The intention is for the preference share funding to be paid down over time from dividends received by Newshelf 1405 on the underlying Absa shares, after allowing for the servicing of the preference share coupon and for 25% trickle dividends (subject to a minimum loan to value ratio being maintained) to flow to the CSI Trust and the Staff Trust. The more expensive mezzanine tranche will be paid down first.

4. FINANCIAL EFFECTS OF THE TRANSACTIONS

4.1 Assumptions on which the Pro forma Financial Effects of the Transactions are based

- The Absa Ordinary Share price used for purposes of calculating the IFRS 2 Share-based Payment (“IFRS 2”) charge relating to the SA Staff Scheme and the Ex-SA Staff Schemes is the Reference Share Price;
- The calculation of the expense relating to the CSI Scheme assumes that the trickle dividend is utilised immediately to fund CSI activities; and

- The IFRS 2 charge is calculated using a Monte Carlo option pricing simulation with the Reference Share Price. The final IFRS 2 charge will be calculated with reference to the share price at the time of the implementation of the Transactions.

4.2 IFRS charge and accounting treatment on which the Pro forma Financial Effects of the Transactions are based

- Newshelf 1405, the CSI Trust and the Staff Trust will be consolidated by Absa and the relevant Absa ordinary shares held by Newshelf 1405 are treated as treasury shares for accounting purposes;
- For illustrative purposes, the IFRS 2 charge relating to the SA Staff Scheme and the Ex-SA Staff Schemes are based on the Reference Share Price. The estimated total cost, which includes the SA Staff Scheme and the Ex-SA Staff Schemes, is estimated at R3,001 million before taxation which will be recognised over the 5-year vesting period. The SA Staff Scheme IFRS 2 charge is R2,251 million and the cost of the Ex-SA Staff Schemes is expected to be R750 million in respect of the phantom shares, recognised over the 5-year scheme period; and
- Any distributions made to the CSI Trust beneficiaries will be expensed as an operating expense in Absa's consolidated income statement.

4.3 Pro forma Financial Effects of the Transactions

The purpose of the table below is to illustrate the unaudited *pro forma* financial effects of the Proposed B-BBEE Transaction on a stand-alone basis, and cumulatively the Transactions, on Absa's basic earnings per share, diluted earnings per share, basic headline earnings per share, diluted headline earnings per share, net asset value per share and net tangible asset value per share, based on the audited consolidated financial results of Absa for the 12 months ended 31 December 2022.

The *pro forma* financial effects of the Proposed B-BBEE Transaction on a stand-alone basis, and cumulatively the Transactions, have been prepared using accounting policies that comply with International Financial Reporting Standards and that are consistent with those applied in Absa's published audited consolidated financial statements for the 12 months ended 31 December 2022.

The *pro forma* financial effects of the Proposed B-BBEE Transaction on a stand-alone basis, and cumulatively the Transactions, are the responsibility of Absa's directors and were prepared for illustrative purposes only and, because of their nature, may not fairly present Absa's financial position, changes in equity, results of operations or cash flows, nor the effect and impact going forward.

The *pro forma* financial effects on Absa's basic earnings per share, diluted earnings per share, basic headline earnings per share and diluted headline earnings per share have been prepared on the assumption that the implementation of the Transactions occurred with effect from 1 January 2022, while the *pro forma* financial effects on Absa's net asset value per share and net tangible asset value per share have been prepared on the assumption that the implementation of the Transactions occurred on 31 December 2022. The information presented below does not purport to be indicative of what the financial results would have been had the Transactions been implemented on a different date.

	Before the Transactions	Pro forma after the Proposed B-BBEE Transaction	Percentage change (%)	Pro forma after the Transactions	Percentage change (%)
Basic earnings per Absa Group Share (cents)	2,478.3	2,414.7	-2.6%	2,402.8	-3.0%
Diluted earnings per Absa Group Share (cents)	2,474.7	2,404.1	-2.9%	2,392.2	-3.3%
Headline earnings per Absa Group Share (cents)	2,443.2	2,379.7	-2.6%	2,367.7	-3.1%
Diluted headline earnings per Absa Group (cents)	2,439.7	2,369.2	-2.9%	2,357.3	-3.4%
Net asset value per Absa Group Share (cents)	16,255	16,247	-0.0%	16,247	-0.0%
Tangible net asset value per Absa Group Share (cents)	14,696	14,688	-0.1%	14,688	-0.1%
Weighted average number of Absa Group Shares in issue (millions)	829.4	829.4	0.0%	829.4	0.0%
Weighted average number of diluted Absa Group Shares in issue (millions)	830.6	833.0	0.3%	833.0	0.3%
Number of Absa Group Shares in issue (millions)	847.8	894.4	5.5%	894.4	5.5%

Notes to the *pro forma* financial effects:

1. The pro forma financial effects are based on the audited IFRS Annual Financial Statements of Absa for the year ended 31 December 2022.
2. Basic and diluted earnings and headline earnings per share metrics are based on the assumption that the Proposed B-BBEE Transaction on a stand-alone basis, and cumulatively the Transactions, were implemented on 1 January 2022.
3. Net asset value and tangible net asset value per share metrics are based on the assumption that the Proposed B-BBEE Transaction on a stand-alone basis, and cumulatively the Transactions, were implemented on 31 December 2022.
4. The effects incorporate the fresh issuance of 46.6 million new Absa shares for cash. The subscription is financed through existing cash in the structure (R330 million), a preference share issuance to Absa Group (R6,176 million), and a capital contribution (R1,807 million) by Absa Bank and fellow South African subsidiaries.
5. The preference share issuance and capital contribution are group neutral, with the effects eliminated on consolidation.

6. The CSI Scheme and the SA Staff Scheme are consolidated in terms of IFRS and all relevant Absa ordinary shares are treated as treasury shares (i.e. shares not issued) for purposes of financial metric measurement under IFRS.
7. The SA Staff Scheme gives rise to shares which are treated as share options for accounting purposes in terms of IFRS 2. The estimated total IFRS 2 charge for the SA Staff Scheme is R2,251 million before taxation with no IFRS 2 charge on initial recognition of the SA Staff Scheme. The IFRS 2 charge accrues over the 5-year period through the income statement and as such has a continuing effect over the duration of the scheme. As a result, a pro forma expense of R450.2 million before taxation is recognised for the year ended 31 December 2022.
8. The impact of the Ex-SA Staff Schemes, assumes that all Absa group companies outside South Africa agree to implement the schemes in their respective jurisdictions. This represents a cash-settled share-based payment transaction per IFRS 2 with the cost accruing over the 5-year period through the income statement. The share-based payment expense, calculated as R150.1 million before taxation for purposes of the pro forma financial information for the year ended 31 December 2022, will have a continuing effect over the 5-year duration of the Ex-SA Staff Schemes and will be remeasured at each reporting date.
9. The trickle dividends that accrue to eligible participants as a cash distribution under the SA Staff Scheme, result in a reduction in the share-based payment reserve recognised under IFRS 2, with no resultant cost impact in the pro forma financial effects.
10. The trickle dividends that accrue to eligible participants as a cash distribution under the Ex-SA Staff Schemes, result in a reduction in the cash-settled liability.
11. For purposes of the pro forma financial effects, trickle dividends that accrue under the CSI Scheme are assumed to be utilised to fund CSI initiatives during the financial period in which they are received, resulting in a cost of R100.6 million recognised for the year ended 31 December 2022. To the extent that the trickle dividend continues to be utilised to fund CSI initiatives, the cost will have a continuing effect over the duration of the CSI Scheme.
12. Initial implementation costs for the Proposed B-BBEE Transaction are approximately R69.0 million (including VAT). This adjustment is not expected to have a continuing effect post implementation.
13. The detailed pro forma financial effects of the CSI Scheme and the SA Staff Scheme on a stand-alone basis, and cumulatively the Transactions, as well as a report thereon by the reporting accountants will be provided in the circular to be sent to shareholders.

5. CONDITIONS PRECEDENT

The Proposed B-BBEE Transaction is subject to the fulfilment or, where applicable, waiver of, *inter alia*, the following conditions precedent:

- approval by Absa shareholders of the requisite resolutions to give effect to the Proposed B-BBEE Transaction, amongst others, (i) the specific issue of Absa shares for cash, (ii) provisions of section 44 and 45 financial assistance, and (iii) the amendment of Absa's Memorandum of Incorporation to the increase of the ordinary authorised share capital of Absa to R1,900 million (one billion and nine hundred million Rand) divided into 950 million (nine hundred and fifty million) ordinary shares of R2 each, which increase would increase the current headroom from 4.9% to 5.9%;
- entering into of all the respective transactional agreements required to give effect to the Proposed B-BBEE Transaction; and
- receipt of all required regulatory approvals, including the JSE Limited ("**JSE**").

The implementation of the Ex-SA Staff Schemes is conditional upon the Proposed B-BBEE Transaction becoming unconditional in accordance with its terms, and any necessary approvals required by each non-South African subsidiary being obtained. Each non-South African subsidiary will have the final discretion on the implementation of the Ex-SA Staff Scheme for its jurisdiction.

6. EFFECTIVE DATE

Subject to all the conditions precedent being fulfilled, or waived as the case may be, Absa is targeting the issuing of the Absa shares on 1 September 2023.

7. SHAREHOLDER APPROVAL, CIRCULAR AND GENERAL MEETING

In terms of the JSE Listings Requirements, the Proposed B-BBEE Transaction requires the approval by way of an ordinary resolution (requiring at least 75% majority of the votes cast in favour of such resolution). Approvals in terms of section 44 and 45 financial assistance and the amendment of Absa's Memorandum of Incorporation to the increase of the ordinary authorised share capital of Absa require special resolutions.

A circular setting out the full terms and conditions of the Transactions and including a notice convening a general meeting of Absa shareholders ("**General Meeting**") ("**Circular**") will be posted to Absa shareholders in due course.

The General Meeting is planned to be held on 2 June 2023, on the same day as and after Absa's annual general meeting. Further details relating to the Transactions and the General Meeting, and the related salient dates and times will be published on the Stock Exchange News Service of the JSE in due course.

Johannesburg
31 March 2023

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Legal Advisor: Edward Nathan Sonnenbergs Inc.

Lead Independent Sponsor: J.P. Morgan Equities South Africa Proprietary Limited