

Influencing market drivers, risks and opportunities

There are a number of distinct factors shaping the financial services industry now and into the future. Linked to these market drivers, are risks and opportunities, both general to the external environment and a number that are specific to Absa. These are actively assessed, appropriate responses are defined and the performance monitored both against our strategic ambitions as well as through our principal and key risks as defined within our Enterprise Risk Management Framework (page 19).

1 Competition and technological change: Increasing competition, technology and the pace of change impacts our ability to remain relevant to our customers as well as our competitiveness and the associated operational risk.

Market drivers and key risks

- Disruption through fintechs and new digitally-led competitor banks which also influences customer behaviour.
- Ever increasing sophistication of cybercrime, fraud risk and financial crime requires continuous improvement of monitoring and prevention to protect customers and the Group.
- The need for threat detection, the prevention of security breaches, disruptions and data mis-management.
- The Separation, combined with strategic organisational change, increases business risk, reputational risk (specifically brand risk) and people risk.

Opportunities and mitigation activities

- Building and embedding a winning brand with a focus on innovative business processes and products, including diversification into new markets and customer segments.
- Delivering scalable, digital solutions that focus on customer needs.
- Developing artificial intelligence solutions using global data to strengthen security measures and crime prevention.
- Continuing to invest in technology platforms, processes and controls including monitoring, enhancements and prioritisation of key issues.
- Ongoing employee education on the prevention of cyber related risks.
- Closely monitoring and managing risks arising from the Separation and organisational change.

2 Regulatory oversight: New and emerging regulations impact on our operations as well as our products and services.

Market drivers and key risks

- The increasing pace and evolving complexity of regulatory and statutory requirements across the Group's markets.

Opportunities and mitigation activities

- Maintaining a coordinated, comprehensive and forward-looking approach to evaluate, respond to, and monitor regulatory change. This is done through ongoing investment in people, processes and systems across the Group.
- Participating in regulatory and statutory advocacy groups across all presence countries.

3 **Macroeconomic, socio and political flux:** The macroeconomic environment impacts on our ability to sustain business and achieve our market commitments while the socio and political environments impact on our operating environment. Africa has unique demographics and economic development.

Market drivers and key risks

- Global uncertainty arising from international trade discussions and Brexit result in increased pressure on emerging markets.
- Increasing cost and scarcity of capital, funding and liquidity across global markets.
- Subdued economic growth, high unemployment, increased inequality and low business and consumer confidence impacting South African markets.
- Unfavourable macroeconomic performance with increasing debt burdens, rate hikes and fiscal shortfalls seen in ARO presence countries.
- Policy uncertainty in South Africa is a barrier to investment. Key risks include the mining charter, potential land expropriation, state-owned entity uncertainty and economic disparities.
- Political risk arising from elections and policy uncertainty have affected the economies in a number of presence countries.

Opportunities and mitigation activities

- Monitoring and managing risk strategy and appetite based on the ongoing evaluation of global and African developments to identify and mitigate risks as they arise, while enabling business to pursue opportunities.
- Monitoring leading indicators to ensure economic risks are effectively managed, including:
 - hedging of interest rate risk and foreign exchange risk as appropriate;
 - proactively managing credit portfolio risks; and
 - strengthening the Group's position in the presence countries that are growth markets while seeking opportunities to diversify into new markets.
- Analysing scenarios to assess the impact of a potential South African sovereign downgrade.
- Engaging with communities and supporting initiatives as part of the Group's commitment to play a role in society.
- Participating in industry advocacy groups to contribute to new and innovative ways to solve social challenges.

4 **Focus on social, governance and environmental matters:** Social and climate change risk impacts on the Group, our customers and the operating environment.

Market drivers and key risks

- Persistent inequality, increasing activism as well as emerging regulation and reporting requirements focused on a broader range of social, environmental and governance-related matters.
- Adverse weather conditions resulting in extreme environmental events (e.g. droughts, floods and fires) impacting community sustainability with credit and insurance risk implications.
- Increased global stakeholder focus on sustainability of the investments and customers associated with corporates.
- Complexity of the data available to accurately model the implications of climate change.

Opportunities and mitigation activities

- Engaging internally and with external stakeholders through Group-wide strategic sustainability programme, to understand and assess impacts and opportunities on the Group and for our customers.
- Engaging with communities and supporting initiatives as part of the Group's commitment to play a role in society.
- Continuously assessing the suitability and strategic alignment of products and customer value propositions against changing environmental factors and the impact on the Group's risk profile.
- Developing and enhancing preventative and reactive credit and insurance risk models.