

## Regulators

Regulators and governments provide the legal and regulatory frameworks that guide the way we do business. Industry bodies (and organised business interest groups) are an important channel through which we engage with regulators and government.

### Key concerns and expectations

- Compliance with all relevant laws and regulations.
- Financial system stability spanning financial soundness to fair treatment of consumers.
- Contribution to government development plans and national priorities (such as job creation) and to the fiscus through fair tax payments.
- Ethical work environment.

### Our material focus areas

- 1 Complying with all laws and regulatory requirements.
- 2 Supporting consumer protection and preventing financial crimes.
- 3 Driving an ethical culture.

### SDG impacts



### 1 Complying with all laws and regulatory requirements.

Laws, regulations and codes define how we conduct business. These cover many aspects within our business, from Know Your Customer requirements to the protection and processing of information, through to how we design and sell our products and services.

Regulations continue to evolve and, while this places additional requirements on the Group, we support efforts to ensure a stable financial services sector and a safe and fair operating environment. We seek to balance the requirements and the cost of compliance to minimise the impact on customers and on shareholder returns.

In South Africa, we are primarily regulated by the Prudential Authority within the South African Reserve Bank (stability of the financial system), the Financial Sector Conduct Authority (overall market conduct), the Financial Services Board (non-banking financial services, including insurance and investments), and the National Credit Regulator (consumer credit). Ancillary regulators include the Competition Commission of South Africa, the Financial Intelligence Centre, National Consumer Commission, South African Revenue Service and the JSE.

In Absa Regional Operations, we are primarily supervised and regulated by the central banks and, in some instances, also by financial market authorities.

Effective compliance with local and international banking regulations is critical for a competitive and sound banking system which enjoys good international standing. We follow a structured approach to ensure that business processes, policies or system changes necessary for regulatory change are implemented.

The regulatory landscape has a wide-reaching impact on our business, and we provide a summary of the key regulatory themes currently in focus with key achievements to date:

- Exceeded Basel III capital requirements, with a core tier 1 equity ratio of 12.0% (above the South African Reserve Bank requirement of 7.375%).

- Achieved a liquidity coverage ratio of 116.7%, above the 2018 SARB minimum target requirement of 90%.
- Achieved a net stable funding ratio of 110.1% above the minimum regulatory requirement of 100%.
- Progressed the implementation of Board approved tactical processes and procedures within our Risk Data Aggregation and Risk Reporting (BCBS239) programme with a strategic automation solution to be planned by 2021.
- Completed a complex programme to implement the requirements of IFRS 9.
- Balanced processing efficiencies with local requirements as we focus on ensuring the protection of our customer data. In South Africa, we have embedded our approach to the draft Protection of Personal Information Act.
- Maintained a level 2 B-BBEE contributor status under the Amended Financial Sector Code in South Africa.

Attention is increasingly on environmental, social and governance performance. We comply with King IV, we have adopted the UN Principles for Responsible Investing and the Code for Responsible Investing in South Africa and we are monitoring other guidelines such as the Task Force on Climate-related Financial Disclosures. Our tax philosophy ensures we pay the appropriate amount of taxes in the jurisdictions where we operate.

Compliance reviews either affirm the effectiveness of controls or identify deficiencies where we adopt appropriate remedial and/or mitigating steps. In the normal course of business, regulators conduct reviews of our controls and progress in meeting regulatory requirements. At times, however, remedial action is required, and administrative penalties and fines may be levied on the Group.

## 2 Supporting consumer protection and preventing financial crimes.

We continue to see an increasing emphasis on regulations relating to responsible investing and financing initiatives.

Responsible credit and insurance are topical regulatory matters. We continue to respond to the limitation of fees and interest rates, maximum costs of credit life and engage with regulators on mechanisms for resolving over-indebtedness/debt relief.

In South Africa, our largest market, we successfully responded to:

- the Financial Sector Regulation Act, which includes the Twin Peaks regulatory framework;
- Retail Distribution Review;
- Financial Intelligence Centre Amendment Bill; and
- Amendments in the Financial Advisory and Intermediaries Services Act.

We continue to monitor various developments, including the Financial Sector Laws Amendment Bill, the National Credit Amendments Bill, the Conduct of Financial Institutions Bill and the South African Retail Banking Diagnostic.

There has been a wide economic impact on society as a result of corruption, leading to an increased need for business, in particular, to maintain financial discipline, ensure appropriate conduct, and to increase contributions to society at large.

We have a zero-tolerance approach in combating money laundering, corruption and terrorist financing, and constantly enhance our control environment to reduce the risk of our employees or customers breaching legislation when dealing with the Group.

98.2% (2017: 98.6%) of our employees have completed fighting financial crime training that includes anti-bribery and corruption, anti-money laundering and sanctions.

## 3 Driving an ethical culture.

We are committed to ensuring we conduct ourselves in accordance with both the law and our Values; that we act in the right way and treat our customers fairly and that we apply a conduct lens to our corporate activities, the entities with which we do business, and those to whom we donate. We remain vigilant in terms of our suppliers, customers and other business associations and take the necessary steps should allegations regarding corrupt practices come to light.

Our conduct risk framework is embedded within the Enterprise Risk Management Framework and brings together all our risk activities and helps us to focus on:


- providing appropriate products and services at the right prices to our customers;
- upholding market integrity;
- rewarding the right activities and behaviours; and
- mitigating potential risks.

99.9% (2017: 98.8%) of our employees have completed Conduct Risk training while 99.9% (2017: 99.4%) have attested to our code of conduct.

Our Treating Customers Fairly Outcome score is based on the measurement of the experience of customers on the perceived performance of the Group against our conduct risk, as well as the expected outcomes of Treating Customers Fairly. The score decreased marginally to 60% (2017: 61%)

We remain focused on driving innovation, system stability and increasing employees' product knowledge and skills.

Whistleblowing provides a safe platform for employees to confidentially and anonymously raise concerns of unethical behaviour and/or fraud. Tip-offs are the most common detector of fraud. 458 tip-offs were received in 2018 with 198 being employee conduct-related. 27% of these were substantiated.

 Employees page 33.

### Our ten target conduct outcomes

- 1 Our culture places customer interests at the heart of our strategy, planning, decision-making and judgments.
- 2 We do not disadvantage or exploit customers, customer segments, or markets. We do not distort market competition.
- 3 We proactively identify conduct risks and intervene before they crystallise by managing, escalating and mitigating them promptly.
- 4 Our strategy is to develop long-term banking relationships with our customers by providing products and services that meet their needs and do not cause detriment.
- 5 We provide banking products and services that meet our customers' expectations and perform as represented. Our representations are accurate and comprehensible, so our customers understand the products and services they are purchasing.
- 6 Our products, services and distribution channels are designed, monitored and managed to provide value, accessibility, transparency, and to meet the needs of our customers.
- 7 We safeguard the privacy of our customers' and employees' personal data.
- 8 We address any customer detriment and dissatisfaction in a timely and fair manner.
- 9 We facilitate market integrity.
- 10 We uphold the reputation of Absa.