remuneration governance

FirstRand's remuneration practices are governed by Remco, which is a subcommittee of the main group board of directors. This committee met eight times during the financial year. It is assessed annually for its skills, independence and efficacy by the company secretary and by an independent external service provider every second year. No concerns were raised during the assessment for the period. The committee draws on several other bodies in the group, including separate remuneration committees for each segment and subsidiary, which all consider individual awards within prescribed threshold levels. These committees all have non-executive director members who can feed back and escalate any issues to the group Remco. The group Remco is solely responsible for determining remuneration of executive directors and prescribed officers, and reviews all employees earning above a threshold, in line with King IV and Banks Act regulations.

Remco is also mindful of the various regulatory and governance requirements in each jurisdiction where it operates. As set out in various sections of this report, there are some differences in remuneration policies that apply particularly in UK operations, reflecting different requirements in those jurisdictions as well as the legacy remuneration schemes that were in operation when some businesses were acquired.

Remco membership

COMPOSITION	DESCRIPTION	MEETING ATTENDANCE
LL von Zeuner (chairman)	Independent non-executive director	8/8
GG Gelink	Independent non-executive director	8/8
RM Loubser	Independent non-executive director	8/8
AT Nzimande (retired 2 December 2020)	Independent non-executive director	4/4
WR Jardine	Independent non-executive director	8/8
JP Burger	Non-executive director	8/8

overview of the remuneration policy

Scope

The remuneration committee's mandate and policy extend across all subsidiaries and businesses in the FirstRand group.

Remuneration regulation

The group applies the following remuneration governance frameworks: the requirements of section 64C of the Banks Act, the Financial Stability Board's Principles for Sound Compensation Practices and its Implementation Standards, Basel Committee on Banking Supervision (BCBS) Pillar 3 disclosure requirements standard (March 2017) and Directive 1/2018 issued by the Prudential Authority, and the recommended practices of King IV, where appropriate. The group's UK operations apply the UK Prudential Regulatory Authority requirements.

The remuneration disclosure requirements of King IV and Pillar 3 are disclosed in this remuneration report.

Remuneration philosophy

The FirstRand founders embedded the view that remuneration must align with shareholder value. This ethos has shaped the group's remuneration philosophy and performance management framework.

The group adopts the principles of an outcomes-based remuneration philosophy, which it believes to be appropriate given the diverse nature of the businesses that make up its portfolio.

THE GROUP'S REMUNERATION PHILOSOPHY IS FOUNDED ON THE FOLLOWING PRINCIPLES
Attracting and retaining talent – FirstRand aims to attract and retain the best talent in the market, through competitive reward packages, to execute on strategy and deliver on its promises to stakeholders.
Aligning with shareholders – Management should not do better than shareholders. The group's key performance measure, NIACC, ensures that employees only receive variable pay after all obligations are met, including "paying" shareholders for their equity first. The growth in management remuneration should not exceed the growth in accumulated net asset value and dividends over an economic cycle (currently six years).
Sustainable business – Management also has a responsibility to other stakeholders: regulators, customers, deposit holders, employees and wider society. In determining and assessing remuneration, Remco aims to ensure that the group delivers sustainable long-term growth for the benefit of all stakeholders.
Pay for performance – Variable pay is subject to financial and non-financial performance criteria aligned to the company's strategic objectives. Performance targets are set at levels that encourage high performance but avoid excessive risk-taking behaviour by executives. In addition, to reinforce a culture of enterprise and innovation, the targeted remuneration mix offered to key talent is deliberately weighted towards variable pay (short- and long-term incentives).
Fair and responsible remuneration – FirstRand promotes equal pay for work of equal value and does not tolerate discrimination based on race, gender or any other arbitrary characteristic.

Pay for performance

FirstRand's remuneration approach has three objectives:

1. To incentivise employees to meet agreed key performance indicators.
2. To be competitive.
3. To reward sustainable value creation.

These objectives are realised through both short-term and long-term incentives. Group remuneration is anchored in the multi-year budget process, which considers strategy, risk appetite and the allocation of the group's financial resources. The group measures shareholder value creation through NIACC, ROE targets are set at a margin above the cost of equity to deliver this. Targets are set at levels that encourage high performance but avoid excessive risk-taking behaviour by executives. This supports the group's commitment to responsibly advance an entrepreneurial spirit with an ethos of creating value in an accountable and sustainable manner.

Fair and responsible remuneration

FirstRand applies the principle of equal pay for work of equal value (internal equity) across all levels of the group's employees. The group aims to ensure there is an even distribution of income between employees that do similar work, irrespective of race and gender.

In a performance-based culture, supported by robust performance evaluation, it is inevitable that pay gaps will emerge. In fact, it is important that employees know that outperformance can and will be compensated. However, inequalities of pay can never be based on arbitrary grounds. The group has robust processes aimed at identifying and correcting any arbitrary inequalities in pay. These processes compare employees on objective criteria such as performance, skills and experience. The rigour of the group's process is validated through an internal annual review which identifies and assesses cases of potential income differentials.

Principles that underpin the group's commitment to fair and responsible remuneration include:

Fair

> Ensuring that equal pay for work of equal value is applied across all job roles.

> Ensuring that remuneration practices are impartial and not affected by self-interest and prejudice on arbitrary grounds including race and gender.

> Ensuring that employee remuneration is fairly differentiated for performance, skills or expertise; and where unjustifiable income differentials are identified they are corrected.

Responsible

> Remuneration outcomes are aligned with group strategy and sustainable value creation.

> Incentives are based on corporate performance conditions and individual performance criteria.

> Incentive schemes do not promote excessive risk-taking.

> Risk Remco and the chief risk officer ensure remuneration and STI pool assessments include a risk perspective.

> Risk Remco ensures that compliance and risk teams are rewarded for not overlooking excessive risk or risky behaviour, even where it may lead to short-term gain.

> Variable remuneration is subject to malus and clawback.

Practices that underpin the group's commitment to fair and responsible remuneration include:

> Adhering to legislative requirements relevant to remuneration and benefits.

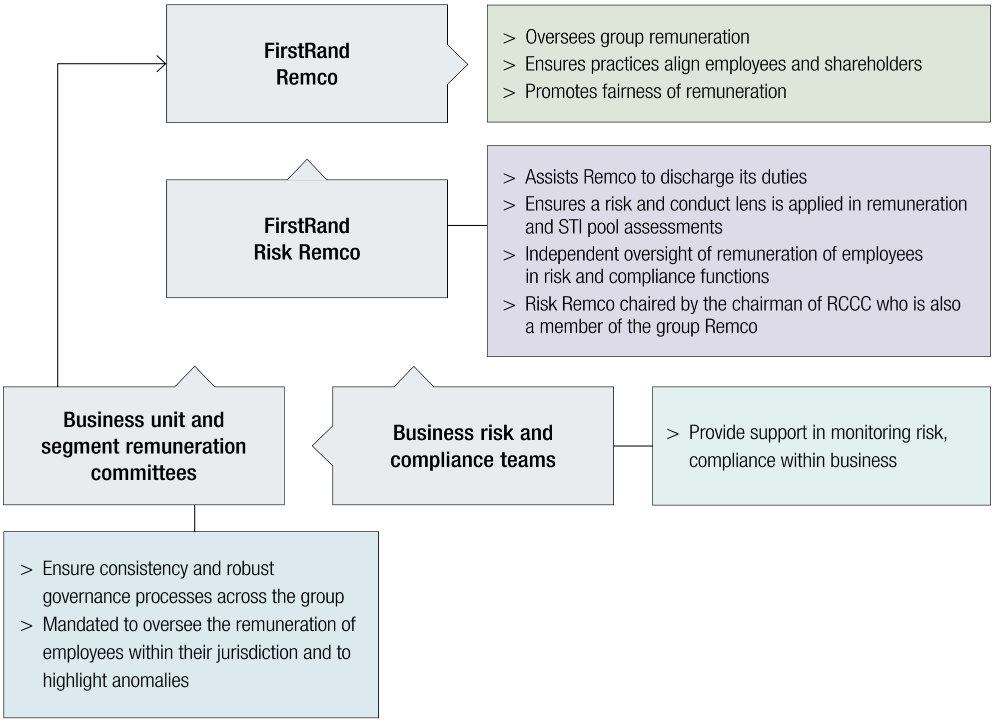
> Setting salary ranges per role (based on role evaluations and benchmarking) for recruitment and the annual reviewing of salaries. New employees are placed within the salary range based on their skills, qualifications and experience in the role.

> Reviewing the remuneration of all employees at least annually, which considers employees' performance in their roles and market benchmarks.
  - Performance is a justifiable reason for differentiating pay, and the group aims to pay top performers towards the higher end of the remuneration range for their role.
  - For employees in the bargaining unit, annual increases are administered in a structured manner, focused on employee performance, and in line with the salary settlement negotiated annually.

> Annually reviewing and adjusting for internal income differentials.
  - A statistical model is used to compare like-for-like objective criteria across the employee base, such as performance, skills and experience. The model flags any employee who is paid less than 80% of the median of this group. The flagged employees are reviewed individually and where unjustifiable income differentials are identified they are corrected.

Remuneration governance and risk

An important principle of the remuneration approach is that it should properly factor risk into remuneration outcomes. FirstRand has adopted the Financial Stability Board Principles and Standards for sound compensation practices, which were introduced to reduce incentivisation of excessive risk-taking that may arise from the structure of compensation schemes. A separate risk remuneration committee (Risk Remco) provides a risk perspective that feeds into the group Remco. It is chaired by the risk, capital management and compliance committee (RCCC) chairman and members include the group executive directors and corporate governance and risk heads. Risk Remco ensures that a risk and conduct lens is applied in assessing remuneration and that STI pools are adjusted downwards for risk and conduct events. Parallel risk remuneration committees operate alongside the business unit Remcos to ensure parity across business units and that remuneration outcomes reflect risk events. This process is further described under *Aligning remuneration to group risk appetite* below.



Aligning remuneration to group risk appetite

The FirstRand remuneration process includes a formal risk and compliance process to ensure that actions outside of risk appetite are not rewarded and that incentive pools are appropriately adjusted for risk and compliance events.

The risk and compliance process interacts with the remuneration process at two levels:

1. The chief risk officer (CRO) of each of the business segments, in conjunction with the group CRO, prepares a risk profile document that outlines an independent assessment of risks and the risk management processes. This document forms part of the overall submission to each segment remuneration committee, which then ensures that each business segment's remuneration pool suitably incorporates the risk and compliance features of the year, and that risk and compliance events and the profile forms part of the considerations for the reward pools.

2. To ensure that the executive directors and prescribed officers' remuneration scorecard accurately reflects the outcome of risk and compliance matters, the group CRO, with input by the segment CROs, head of enterprise risk management and head of compliance, makes recommendations on the scorecard results used by Remco in setting the remuneration of the executive directors and prescribed officers.

Remuneration of risk and compliance functions

To ensure that risk and compliance employees' remuneration are aligned to the outcome of the control functions they fulfil, Risk Remco reviews the risk and compliance employees' remuneration above an agreed threshold. This takes account of the overall risk profile of the segment they operate in, as well as the risk and compliance profile changes during the year, including material risk and compliance events. The remuneration of employees in the risk and compliance functions is based on the achievement of risk management objectives and conduct outcomes and is reviewed and benchmarked annually. The group CRO, together with the head of enterprise risk management and head of compliance, provides input into the compensation levels of risk and compliance managers and officers across the group, with Risk Remco providing independent oversight.

Malus and clawback

Further mechanisms ensure employees are aligned to the group's risk appetite including malus and clawback provisions for both LTIs and STIs. Malus (the ability to reduce or cancel an award that has not yet vested) and clawback (the ability to claw back the proceeds of awards already vested and settled) ensure that any serious risk events can lead to consequences for award participants. The deferral of short-term incentives and the use of forward-looking LTI performance and vesting periods effectively extend the malus and clawback periods. Malus or clawback therefore aligns the behaviour of employees to the delivery of sustainable risk-adjusted performance.

Benchmarking of remuneration

The group undertakes a comprehensive benchmarking process to ensure fair and competitive remuneration. All components of remuneration are benchmarked externally. The reward philosophy and strategy are based on sound principles aimed at attracting, retaining and motivating employees whilst ensuring compliance to institutional policies.

GUARANTEED PAY

While the market median is the target for guaranteed pay and skills that are high in demand, high-performing employees may be paid at or near the upper end of the market range.

The objective is to reward our employees equitably and fairly, based on both market data and internal comparators. By using market data obtained from reliable surveys, a pay range for each role in the market and position in this pay range is determined based on:

> Scarcity of skill
> Critical skill sets and roles
> Market placement

This approach ensures that guaranteed pay is competitive, allowing the business to attract and retain the best talent in the market. Benchmarking is conducted as part of the annual review cycle as well as on an *ad hoc* basis to ensure that the group remains competitive. If it is identified that an employee's remuneration is out of line with the market, a recommendation is made for adjustments either during the annual salary review or as an interim adjustment. All interim adjustments have strict approval mandates for governance purposes.

External market benchmarking

FirstRand consults with independent service providers, detailed below, to benchmark market data pertaining to guaranteed remuneration. *Ad hoc* surveys are also conducted when it appears a rapid shift in market practices has occurred. Local peer comparisons are also performed for executive directors and prescribed officers.

During annual salary reviews, the survey information is used to ensure appropriate pay levels. Remco uses this information to ensure that the executive directors' and prescribed officers' total remuneration is aligned with the market.

PwC benchmarking

Executive directors' and prescribed officers' total remuneration is benchmarked using JSE-listed banking peers.

Remchannel

Remchannel performs a comprehensive remuneration survey of guaranteed pay and short-term incentives in South Africa. It currently has 543 participating companies across all industries ranging from small to large corporates, including all the JSE Top 40-listed companies. It further provides comparator circles to ensure that benchmarking is done against industry peers at the correct level.

It also provides data for Namibia, Botswana and Eswatini.

Mercer

The Mercer Top Executive Remuneration Survey provides a thorough analysis of top executive pay amongst large corporations in South Africa. The survey includes all major financial services organisations.

Mercer applies multiple factors to sizing executive roles to arrive at what is known as an international position evaluation (IPE) level. Once these levels have been ascertained, companies benchmark against the comparator group at the same level. The factors used to determine IPE levels include:

> annual turnover;
> assets under management;
> headcount across all jurisdictions; and
> multinational vs national operation.

The Mercer survey covers all elements of guaranteed pay, payments in respect of short-term incentive schemes as well as the expected value of long-term incentives. It also provides a pay mix analysis across these three elements for executive remuneration.

AON McLagan Investment Banking Survey

In addition to Remchannel and Mercer, RMB subscribes to the AON McLagan Investment Banking Survey, which includes the major investment banking firms. The participants in the South African remuneration survey include the international banks in South Africa and the large local banks. Their library of roles is appropriately aligned with RMB's business, especially front office roles.

Emergence Growth (for rest of Africa subsidiaries)

Emergence Growth provides market data for remuneration of executives and general staff which is used for benchmarking in the majority of the subsidiaries in the rest of Africa. The company conducts surveys that cover all elements of remuneration including guaranteed pay, short-term incentive schemes and long-term incentives, with strong financial sector cover. Additional *ad hoc* data is provided based on specific needs. The surveys supported the design and implementation of remuneration based on benchmarks that have enhanced reward-related decision-making in the group subsidiaries.

Ad hoc surveys

In circumstances where it appears that pay for certain skills has fluctuated rapidly owing to factors such as scarcity of skills, a bespoke survey may be commissioned. Such surveys are conducted using a reputable and independent consultancy. The results of these *ad hoc* surveys serve to either validate existing data or provide intelligence for the business to make decisions.

Components of remuneration

To deliver on the remuneration philosophy and principles, FirstRand's remuneration structure emphasises variable components with short-term incentives based on individual performance, and long-term incentives based on group performance. These overlay a guaranteed package that is competitive in the market, reflecting the role, skills and experience of the individual employee. The greater the influence of the individual on overall risk and returns of the group, the higher the proportion of long-term incentives awarded. Incentives reward individuals for their performance and that of the business, but also act as retention mechanisms with deferred payments subject to continued performance and employment. The diagram below illustrates the different components of fixed and variable pay.

			Eligibility							
			AE	MM	SM	E	Not deferred and paid in year	Deferred for six months – one year	Deferred for two years	Deferred/vesting after three years
Guaranteed package	Increases are informed by individual performance	Cash package	✓				Cash package			
		Benefits > Retirement contribution > Medical aid and life/disability cover contribution	✓				Benefits			
Short-term incentives	Pool is based on financial and non-financial measures. Individual allocation linked to individual performance	**Cash award**	✓				**Cash award**			
		Deferred cash award	✓					**Deferred cash award ****		
		Deferred bonus award (equity-linked)		✓	✓	✓			**Deferred bonus award (equity-linked) ****	
	Allocation informed by individual performance	**Deferred incentive plan**		✓	✓					**Deferred incentive plan (equity-linked)**
Long-term incentives	Allocation is linked to individual performance and prospective delivery. The vesting of all awards is subject to three-year corporate performance targets.	**Rand-based conditional incentive plan:** Share-linked plan based on achieving group performance objectives.			✓	✓				**Rand-based – conditional incentive plan**
		GBP-based – UK LTIP: 50% share-linked award and 50% deferred cash award.	✓*							**GBP-based – UK LTIP**

AE: All employees MM: Middle management SM: Senior management E: Executives
**All UK-based employees. ** For deferral thresholds, refer to diagram on page 14.*

Each of these components is based on pools that are set using the methods described in the table below:

Guaranteed package (GP) and benefits	Increases are linked to current inflation statistics plus change allowed for headcount growth, promotions and benchmarking.
Short-term incentives	The STI pool is based on: > Unionised staff: based on a percentage of GP and annually reset with reference to the group's earnings performance. > Managerial pool: determined against financial and non-financial performance, with financial linked to earnings growth and NIACC. The outcome is adjusted for risk.
Deferred incentive plan	The pool will grow in line with guaranteed package, which is linked to inflation and adjusted for strategic headcount growth.
Long-term incentives	The pool growth is linked to inflation and adjusted for strategic headcount growth.

Guaranteed package and benefits

Cash package (based on cost-to-company)

The group has a cost-to-company (CTC) approach designed to attract and retain talent in line with the scope, nature and skills requirement of the role. CTC is generally market-related and reflects the responsibilities of the role, expertise and skills of the individual employee.

Benefits are compulsory but employees can choose from various options.

Retirement contribution

All employees are contractually obliged to contribute to appropriate retirement savings vehicles. The group has a dedicated forum that works with these entities to improve retirement outcomes by maximising investment returns and minimising costs.

Medical aid and life/disability cover contribution

All employees are contractually obliged to belong to a medical aid and to have life and disability cover.

Short-term incentives

STIs are designed to reward performance achieved within the desired risk parameters over the period. There are various elements to STIs, depending on the seniority and remuneration levels of the employees. STIs are allocated from a pool based on overall group performance to employees and disbursed taking individual performance into consideration. In this way both individual and group performance is incentivised. Amounts exceeding an agreed-upon threshold are deferred into cash and awards linked to share price performance to further align interests with shareholders. In 2021, Remco introduced the deferred incentive plan to reward highly skilled senior employees who no longer participate in the long-term incentive plan. Remco also introduced a new executive scorecard in 2021 with four high-level categories, each of which includes several weighted metrics, and introduced STI caps for executive directors and prescribed officers.

POOL DETERMINATION

Remuneration is anchored to a multi-year budget process, which considers strategy, risk appetite and financial resource allocation. Specific qualitative and quantitative targets are core to the remuneration assessment. Quantitative targets include earnings growth and ROE targets, which are set to deliver positive NIACC. From 2021, normalised earnings include the impact of impairments of intangible assets and the STI pool will therefore reduce accordingly.

Remco will adjust STI pools downwards for material risk and conduct-related events. To do so, Remco assesses the following: control environment, internal and external audit results, compliance with risk policies and processes, and platform maturity. Conduct is also assessed in respect of employees, clients and the business and financial markets, as well as regulatory compliance.

Remco considers formal submissions from the main businesses through the Risk Remco as described under *Remuneration governance* above.

Operating business STI pool determined bottom-up

STI pools for the group's various operating businesses are calculated bottom-up against the performance framework, subjected to oversight by the office of the financial director and thereafter presented to operating businesses Remcos and group Remco for challenge and approval. The calculation of STI pools is determined using both financial and non-financial performance measures.

Qualifying criteria

For an operating business to qualify for an STI pool, the business has to produce earnings and meet bespoke/individualised ROE hurdle rates which are either equal to or greater than group ROE hurdles. These hurdle rates are set considering the underlying activities and complexity of earnings generated. In the event ROE hurdles are not met for any given year, the overall ROE profile over six years is considered ensuring NIACC is cumulatively positive. In this event, the pool will grow lower than earnings growth.

For support areas, a bottom-up approach is applied based on individual and overall group performance as well as industry benchmarks.

For new business initiatives which do not yet meet group hurdle rates, the bottom-up approach includes measurement of progress of business strategy and execution against targets.

Differentiated STI range

Remco applies a rate to qualifying pre-incentive pre-tax profits to determine the STI pool per operating business.

Range – Firstly, Remco determines an STI pool range as a percentage of pre-incentive profits allocated to the various operating businesses. These ranges are based on the nature and complexity of the relevant business's underlying activities and revenue streams and consider industry reward practices. More complex, diversified businesses are rewarded with a higher rate than monoline businesses.

Annual rate – Remco applies certain qualitative factors such as quality of earnings, risk management performance, operational losses, employee satisfaction, etc. for the year under review to determine the appropriate rate within this range. It then applies this rate to qualifying pre-incentive pre-tax profits to determine the bottom-up STI pool.

Remco also considers non-financial measures (as noted above) in the determination of STI pools. Remco applies judgement and may make adjustments from a business's calculated STI pool for performance against these non-financial measures. These include:

- diversification and quality of earnings;
- sustainability;
- progress against strategic objectives;
- progress on transformation; and
- organisational culture/behaviour.

Risk adjustment – Appropriate risk-taking is factored into STI awards with pools adjusted downwards for sanctions and penalties due to risk or regulatory events, or an undesirable risk profile in an area, as described under *Remuneration governance*, above.

Final pool allocation

The bottom-up pool determination is constrained by the overall group STI pool calculation and adjusted accordingly. In determining the group STI, pool shareholders must do better than management.

1 FIRSTRAND POOL DETERMINATION

Financial measures
- > Top down: group performance (including earnings and NIACC over the business cycle), industry benchmarking
- > Bottom up: business unit growth rate in profit before tax, NIACC, volatility over six-year business cycle
- > New business initiatives achieved

–

Downward adjustments
- > Risk assessment with penalties for risk and compliance events

±

Non-financial measures
- > Progress against strategic objectives
- > Sustainability, transformation and organisational culture

=

An STI % rate that is applied to pre-tax profit to determine the FirstRand pool

2 BUSINESS UNIT POOL ALLOCATION

Qualification requirements:
- > ROE hurdle rates through the cycle met. NIACC evaluated

STI pool

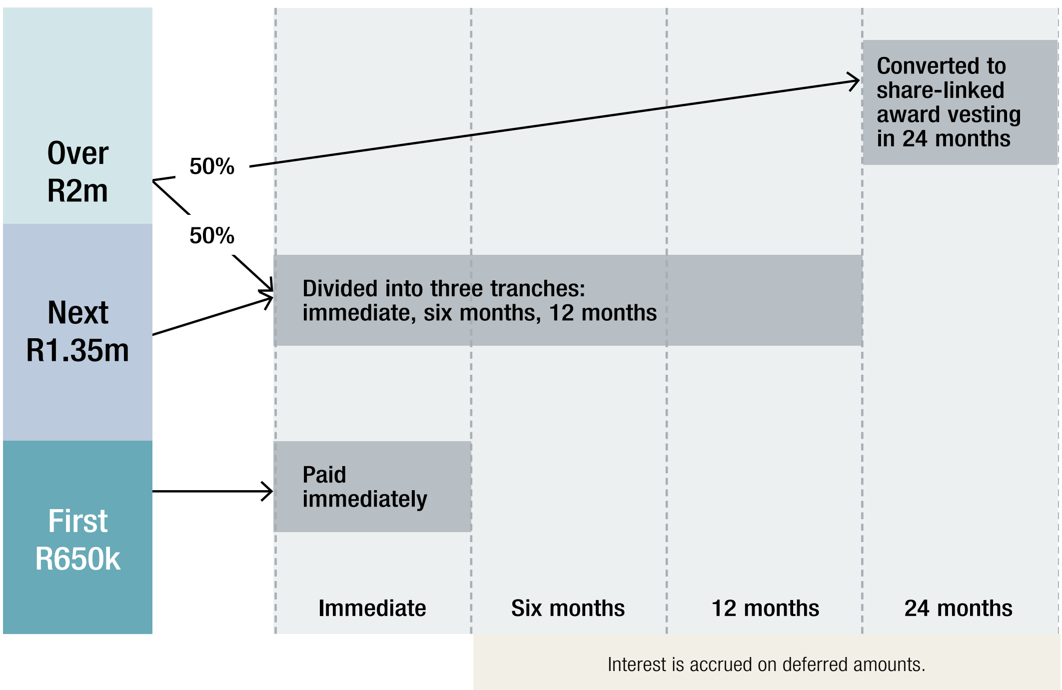
/

Proportional allocation to business units informed by:
- > Nature and complexity of the business
- > Activities and revenue streams
- > Industry reward practices

BONUS DEFERRAL

In terms of good remuneration practice and to drive retention of senior employees, STIs above certain thresholds are deferred. Deferrals consist of both cash deferrals and share-linked deferrals where eventual payments are linked to the share price.

- > R0 – R650 000: paid in full in August.
- > R650 000 – R2 million: is paid in three tranches, in August, December and the following June. The second and third tranches include interest.
- > Above R2 million: half is paid in three tranches, in August, December and the following June. Half is deferred in a deferred bonus award, linked to the FirstRand share price, which vests after two years (for certain senior managers the deferral is 30%).



DEFERRED INCENTIVE PLAN

As explained in the introduction, the DIP was introduced as a deferred short-term incentive to drive performance and retention. Key professionals who are high performers with scarce skills but not eligible for LTIs are eligible for a deferred incentive award through the DIP. Executives are not eligible for the DIP. These awards are allocated based on the individual's performance rating for the last 12 months as part of the annual salary review cycle. Specific allocation guidelines are provided to businesses to inform awards for a given level of performance linked to a percentage of guaranteed pay. The award is forfeited if the individual performance requirements are not met over the three-year vesting period.

The award is linked to FirstRand's share price, and vests after three years, when employees can settle in cash or equity. The change in the share price for these awards is hedged, ensuring there is no additional cost to the shareholder for share price changes.

The pool for these awards is developed bottom-up and moderated by considering inflation and strategic headcount growth. For eligible employees, the DIP replaces the previous LTI awards for which they are no longer eligible. The value of the DIP pool was reduced by 15% relative to the previous LTI pool level, which reflects the higher probability that the DIP will vest.

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' STI

STI caps for executive directors and prescribed officers

With effect from 2021, Remco introduced STI caps for executive directors and prescribed officers. Caps are set relative to the guaranteed packages of the executive directors and prescribed officers. Remco followed a rigorous process and believes the STI maximums introduced are appropriate. The maximum will only be reached under very exceptional circumstances with considerable outperformance on the scorecard metrices, which would result in significant shareholder value creation.

	STI CAPS
CEO	300% of guaranteed package
CFO, COO and PO: Retail and Commercial	250% of guaranteed package
PO: Corporate and Institutional	350% of guaranteed package
PO: Aldermore	125% of salary

For the South Africa-based executive directors and prescribed officers their guaranteed package is their cost-to-company. In the case of the Aldermore prescribed officer, the STI cap is applied on base salary excluding market-adjusted allowance and retirement contributions or other allowances. The lower STI cap for Aldermore flows from the European market dynamics where guaranteed packages had increased, given the various remuneration-related regulations.

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' SCORECARDS

After the group STI pool has been determined, Remco considers STIs for executive directors and prescribed officers using a scorecard. Remco introduced further refinements to the executive scorecards for 2021. The 2020 scorecard followed a two-pillar approach, with a financial score (covering financial, strategic, and risk and control considerations) and a non-financial score (covering ESG). One of the key requirements that emerged from shareholder feedback was to fully incorporate ESG measures into the main scorecard (i.e. not a separate ESG scorecard).

As a result a new executive scorecard was introduced in 2021 and will be applied going forward, with four high-level sections that each contains several categories of metrics that are assessed to determine executive directors' and prescribed officers' STIs. The sections and weightings are shown below. Weightings for the various sections are aligned to the relevant executive's portfolio of responsibility, and differ between each executive scorecard.

SECTION	WEIGHT	CATEGORY
Financial	30%	Group financial performance (executive directors and prescribed officers) and business performance (prescribed officers)
Strategic	25% – 30%	Protect and grow banking business
		Broaden financial services offering
		Leverage rest of Africa portfolio
		Grow a more valuable UK business
		Build a platform-based financial services business
		Disciplined management of financial resources
Risk and control	20% – 25%	Control environment
		Market and business conduct
		Risk appetite and volatility
		Credit loss/impairments
		Operational, market and investment risks
ESG	20%	Ensuring the health of organisational culture and good corporate governance
		Health of key relationships
		Shared value
		Climate
		Transformation
		Talent management and succession planning
Performance rating	100%	

Long-term incentives

Long-term incentives are granted each year to executives and senior managers with conditions tied to the performance of the group. Those who are in decision-making positions that affect the overall performance of the group and delivery of value to shareholders are eligible. These awards are designed both as incentives to drive behaviour aligned to shareholders and to retain participants through the long-term vesting nature.

For employees of FirstRand, the LTI award is tied to the FirstRand share price and has a three-year vesting period until it is fully vested, subject to performance conditions being met. It is then settled with shares purchased on the open market or with cash of equivalent value. Together with the LTI awarded in 2021, LTIs from 2019 and 2020 are still in-flight. For employees of Aldermore and MotoNovo in the UK, half of the award is a deferred cash award and the balance is tied to the FirstRand share price.

OBJECTIVES OF THE LTI AWARD

> Remco aims to use long-term incentives to align employees to the shareholder objectives of sustainability, quality earnings growth, superior returns and the creation of long-term franchise value. This is based on a graded vesting structure, where vesting levels are directly linked to performance outcomes, to give effect to the principle of paying for performance.

> The final value delivered is based on the group's share price, resulting in further alignment between employees and shareholders.

> Due to the long-term vesting of the instruments, they also support the retention of critical executives and senior managers.

GOVERNANCE OF THE LTI AWARDS AND STRUCTURE

> Remco annually approves:
- the principles governing the LTI awards;
- the total LTI award pool for the group;
- the LTI awards made to executive directors and prescribed officers;
- changes to eligibility policies for the awarding of LTIs to participants; and
- the performance conditions for new awards, after assessment of the business priorities, forecasts and the prevailing and expected macroeconomic environment.

THE OPERATION OF THE LTI

The table below sets out the key features of the in-flight awards and current design features of LTIs.

KEY ELEMENT	POLICY AND ELIGIBILITY
Geographical differences	The LTI plans differ for South African and UK employees. > South African and rest of Africa employees: The FirstRand conditional incentive plan (CIP) is denominated in South African rands and linked to the FirstRand share price. > UK employees: The UK LTI is denominated in British pounds. For Aldermore and MotoNovo employees 50% is linked to the FirstRand share price and the balance is deferred in cash.
Award allocation	The allocation of this pool to the operating businesses is determined by considering: > the franchise value created; and > the sustainability of the operating businesses' contribution to shareholder value. The allocation to individuals is driven by eligibility criteria and the guaranteed package of the individual. Awards are made annually but no one is guaranteed an annual allocation. Allocation depends on the total pool available, the role of the individual and each individual's performance.
Vesting value	All LTI awards are subject to forward-looking performance conditions linked to group outcomes and are either settled in FirstRand shares, or in cash based on the underlying value of a FirstRand share. Therefore, the participants remain exposed to fluctuations in the group's share price over the vesting period.
Shareholder protection	FirstRand protects shareholders from dilution as it does not issue shares to settle awards. As such, the group does not require a dilution limit to protect shareholders from excessive dilution. When shares are required to settle a participant on vesting, these shares are acquired in the market at the prevailing price. FirstRand also protects shareholders against future volatility in the share price and the potential for higher cost arising from a higher share price at vesting by hedging the outstanding awards. The hedge costs are taken through earnings and all performance criteria are measured including these costs.
LTI award vesting period	The performance conditions for all awards are measured over three years. The awards vest three years from the award date to the extent that the conditions have been met.
Performance conditions	The section below provides detail regarding the performance conditions selected. From 2021, 100% of LTI awards are subject to performance conditions. For the 2019 and 2020 awards, executives and senior managers' awards were fully subject to performance conditions and other participants, have 50% of the award linked to performance conditions and 50% to continued employment. These individuals are no longer eligible for LTI awards and participate in the DIP. For Aldermore group and MotoNovo employees, the performance conditions are linked 20% to FirstRand group in the same way as the FirstRand LTI instrument and 80% to Aldermore performance conditions using a balanced scorecard of growth in earnings, ROE and conduct risk for Aldermore group. These are set for each annual award.
LTI vesting level cap	Graded vesting applied to LTIs since 2019 include stretch targets that allow participants to receive more than 100% of the LTI award based on stretched targets. These are capped at 150% of the award value. This level of vesting will correlate with exceptional value for shareholders based on the performance conditions set for these levels of vesting.
In-flight awards	Current in-flight awards were made in September 2019 and 2020. Awards for 2021 will be made in September 2021. The 2018 award, with a vesting date in September 2021, lapsed as its performance conditions were not met. (Refer to the Implementation report).
Changes to conditions of in-flight awards	Remco does not: > amend in-flight awards' conditions once issued; > re-price share incentive awards for changes in the share price; or > re-test performance conditions or delay measurement of performance conditions.
Downward adjustments	From 2019, in circumstances where the performance conditions have been met, Remco can apply downward adjustment on the vesting outcome based on specified criteria. For the 2021 award, compliance with the group's climate roadmap has been included as a potential downward adjustment item.

KEY ELEMENT	POLICY AND ELIGIBILITY
Dividends	Dividends are not accrued on LTI awards over the vesting period.
Settlement at vesting	At vesting, the employee will receive the vesting value, based on the share price change over the vesting period. The default option for settlement will be cash, however if the participant elects settlement in shares, the shares will be purchased in the open market.
Change in employment before award vests	Refer to *Treatment of unvested LTIs on termination* and malus provisions below.
Provisions for clawback (post vesting) of awards	Refer to clawback provisions below.
Change of control	In the event of a change of control there will not be automatic early or accelerated vesting of awards. Directors may adjust, replace or convert awards, or take any such action they deem appropriate in the event of a change of control, to protect the interests of participants and ensure that they are placed in a substantially similar financial position. The intention is to not prejudice the employee or the acquirer.

Vesting ranges

The group implemented graded vesting to its LTI awards issued from 2019. In the graded vesting structure, minimum performance conditions are set to achieve any vesting (threshold vesting), on-target (100% vesting level) and a range of stretch targets. If the performance conditions for threshold vesting have not been met, the vesting outcome will be zero and the award will lapse. As described in the section below, ROE and earnings growth conditions are set for each vesting level. For 2019 and 2020, threshold vesting was 70% and decreased to 50% in 2021. The maximum level of vesting that applies for all the awards issued since 2019 was capped at 150%. Stretch outcomes above 100% vesting will correlate with exceptional value created for shareholders.

Measures selected as LTI performance conditions

In line with its commitments to shareholders, the group continues to use ROE and earnings growth as its key performance conditions. An important feature of the group's approach is that both ROE and earnings growth hurdles must be achieved in order for the awards to vest. This makes the vesting more onerous compared to typical market practice where performance measures are individually measured. In FirstRand's case, a single combined hurdle consisting of ROE and earnings growth is used, meaning if the one measure is not achieved no vesting will take place. FirstRand selected these measures for its LTI because the group believes they are key drivers of shareholder value creation.

Remco sets the ROE targets with reference to cost of equity. This means that the awards drive delivery of NIACC, reflecting economic value added for shareholders. In addition, strong earnings growth delivery will support capital levels, NAV growth and dividend growth. As such, these measures drive shareholder returns. The group further believes that the trade-off between ROE and earnings growth is key to long-term shareholder value and this has been strongly embedded in the risk-return and FRM frameworks. After Remco has evaluated delivery relative to the performance conditions and determined the vesting outcome, it considers non-financial measures and can adjust the vesting outcome downward in certain circumstances. Remco refined this adjustment in 2020 and 2021 by implementing an adjustment mechanism that allows it to adjust the vesting outcome downwards by a maximum of 20% for the non-financial measures. This could be exercised if material negative outcomes for the business occur that were within management control. These could include:

> issues that materially damaged the group's franchise, including its reputation;

> material enterprise-wide risk and control issues, as recommended to it by the risk, capital management and compliance committee;

> concerns regarding the adherence to the liquidity and capital management strategies in place; and

> lack of compliance over the three-year period with the group's climate roadmap (included from 2021).

Remco does not assign weightings to each separate performance condition, as this would create separate instruments which could drive behaviour where the one condition is favoured at the cost of the other. The group's integrated vesting structure requires both the return and earnings growth conditions to be jointly met, resulting in superior shareholder value creation. It also supports the group's principles of managing the trade-off between these measures. In practice, both earnings growth and ROE outcomes can constrain the vesting levels which increases the difficulty of reaching vesting. To determine the vesting outcome, earnings growth is used to ascertain the vesting level using the linear vesting between each of the vesting ranges. This outcome is then constrained by the ROE requirement that is set as a minimum for any of the vesting ranges.

Remco typically considers the following factors in setting performance conditions for LTI awards and followed this approach in setting conditions for the 2021 award, with the outcome disclosed in the Implementation report.

- The group's ROE projections and the stated long-term through-the-cycle ROE range of 18% to 22%.
- The group's long-term earnings growth target of South African real GDP plus CPI plus 0% to 3%, which is set after reviewing:
  - the size of its South African earnings base and balance sheet and the challenge of growing these materially above system growth given its relative market share;
  - required investment in platforms, and new business development for future growth strategies, given the group's preference to expense and not capitalise where possible;
  - the outcomes of the budget process as well as scenario analyses on the budgets with incorporation of risk and stressed views;
  - the macroeconomic outlook together with the probabilities assigned to the different scenarios; and
  - the requirement to protect the return profile and not incentivise earnings growth at the expense of returns.

ROE is based on actual net asset value and not reduced for goodwill.

As noted above, non-financial measures are incorporated through the potential downward adjustment.

Covid-19 award

Given the extenuating circumstances created by the Covid-19 pandemic, this was a one-off award in 2020.

Executive contracts and policies

There are no contractual entitlements to payments on termination and no special termination arrangements or golden-parachute agreements in place. Contractual notice and accrued leave are paid out where legally required. Unvested deferred STI awards or unvested LTI awards are dealt with in accordance with the rules of the applicable scheme. Malus and clawback provisions apply to STI and LTI as detailed below.

NOTICE PERIODS FOR EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

All executive directors and prescribed officers in South Africa have a notice period of one month. In the UK, Steven Cooper has a notice period of six months. Executives have no guaranteed termination payments.

BUYOUT AWARDS

The group uses buyout awards when recruiting employees to compensate them for incentive awards they will lose on leaving their previous roles. For example, these are done:

- when the business is heavily reliant on high-demand scarce skills;
- to replace prospective employees' current benefits; and
- to remain attractive and competitive in the market.

Buyout awards can be made in cash, deferred awards or LTIs, and will mirror the value, nature and time period attached to the incentive that is being bought out. LTI awards are subject to the respective performance conditions. Furthermore, the buyout remains subject to malus and clawback in line with policy.

TERMINATION CATEGORIES

The following conditions apply to outstanding STI and LTI awards upon termination of employment:

	STI	LTI
Resignation and fault terminations		
Resignation or dismissal	Employees who resign or are dismissed before the vesting or payment date of cash or share-linked awards will forfeit these awards.	Employees who resign or are dismissed before the vesting date of the outstanding LTIs will forfeit these awards.
No fault terminations		
Retirement	The cash and share-linked awards of employees who retire in terms of the group's retirement policy continue for the duration of the vesting period and remain subject to the applicable rules.	The LTI awards of employees who retire in terms of the group's retirement policy continue for the duration of the performance period and remain subject to the applicable rules and performance conditions.
Death, retrenchment, injury, disability or ill-health	The cash and share-linked STI awards of employees are retained and settled within 30 days in terms of the applicable rules.	The awards are pro-rated for the remaining vesting period and adjusted for the performance conditions which are tested against the roll-forward conditions to date and settled within 30 days in terms of the applicable rules.

MALUS AND CLAWBACK

Malus and clawback are applied to all variable pay and can be invoked upon the occurrence of trigger events and applied as follows:

> Malus is applicable to awards that have not yet vested or settled, allowing for them to be cancelled on the occurrence of a trigger event.
> Clawback applies once an award has vested upon the occurrence of a trigger event. Remco has the discretion to claw back any variable remuneration in the event of the trigger events detailed below. The clawback applies for three years after payment.

A trigger event may include, *inter alia:*

> the discovery of a material misstatement of performance that resulted in a variable reward made, which the board is satisfied that the employee has contributed to and is responsible for;
> the discovery that the assessment upon which the award was made was based on erroneous, inaccurate or misleading information;
> any action or conduct which, in the reasonable opinion of the board, amounts to dishonesty, fraud or misconduct;
> the discovery of a material failure in risk management to which the employee had contributed and is responsible for; and/or
> the discovery that performance related to financial or non-financial targets was misrepresented and that such misstatement led to the over-payment of incentives.

MINIMUM SHAREHOLDING REQUIREMENT

With effect from 1 September 2017, executive directors and prescribed officers were required to hold FirstRand shares to the value of at least 50% of their last three years' annual post-tax LTI vesting. The first compulsory assessment was September 2022.

Given the failure of the 2017 and 2018 LTI vestings, this policy was revised in 2021. The revised shareholding requirements are set relative to guaranteed pay and are outlined in the table below. The effective date remained September 2022 or the next LTI vesting date five years after joining FirstRand or appointment to the role. The Aldermore CEO has an effective date seven years from joining to comply with the minimum shareholding requirement (MSR) given the newly introduced deferral requirements under the Capital Requirements Directive V (CRDV).

MINIMUM SHAREHOLDING REQUIREMENTS FROM THE EFFECTIVE DATE	CEO	SA PRESCRIBED OFFICERS AND EXECUTIVE DIRECTORS	ALDERMORE PO*
	300% of GP	200% of GP	100% of salary*

* *Aldermore requirement is lower given the relatively higher level of guaranteed pay in the UK relative to South Africa.*

Compliance with the policy is monitored annually through the required shareholding disclosure in the *Annual integrated report* for the executive directors and prescribed officers and quarterly disclosure to the board.

NON-EXECUTIVE DIRECTOR FEE PRINCIPLES

> The group chairman's fee covers the chairmanship and/or membership of and attendance at the board and all board subcommittees.
> Non-executive directors are paid an annual fee (quarterly in arrears) for their board membership.
> Members of board committees are paid an annual fee (quarterly in arrears) for attendance at committee meetings scheduled during the cycle. Members are not paid for meeting that they do not attend during the governance cycles.
> Chairs of committees are paid a premium, being twice the standard membership fee.
> Training sessions, *ad hoc* (unscheduled) board committee meetings, and strategic sessions for the board are remunerated at an hourly rate, approved by shareholders as an *ad hoc* fee, based on the meeting length and preparation time.

Setting the fees for non-executive directors considers:

> Internal benchmark exercises against the fees paid by peer banks.
> External benchmark data provided by PwC.
> General increases applied to employees (executives and senior management) within the organisation.
> Any other relevant factors (e.g. considerations during the pandemic).

NON-BINDING ADVISORY VOTE

The 2021 remuneration policy and implementation report will be tabled for a separate non-binding advisory vote by shareholders at the AGM. Remco commits to engage with shareholders in the event that either the remuneration policy or the implementation report, or both, are approved by less than 75% of the votes exercised. If this is the case, Remco will invite dissenting shareholders to engage.