

Tax Review

“Businesses and societies benefit where there is transparency and trust. The Tax Review aims to provide increased transparency with regard to our tax strategy and policies, approach to tax management and the key tax principles that we have adopted to demonstrate that we are doing business in a sustainable and responsible way.

Mike Davis, Chief Financial Officer

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Letter from the Chief Financial Officer

Businesses and societies benefit where there is transparency and trust. The Tax Review aims to provide increased transparency with regard to our tax strategy and policies, approach to tax management and the key tax principles that we have adopted to demonstrate that we are doing business in a sustainable and responsible way.

We acknowledge that our total economic contribution is a key source of revenue for governments in all the jurisdictions in which we operate. We remain committed to deliver on our purpose of using our financial expertise to do good and to contribute to the well-being and growth of the societies in which we operate by delivering value to our employees, clients, shareholders, regulators and society.

We are confident that our approach to tax, as set out in this review, demonstrates our commitment to advancing the achievement of the United Nations (UN) Sustainable Development Goals (SDGs), which we have adopted as a framework for measuring delivery on our purpose.

After a volatile and difficult year for the South African banking sector in 2020, 2021 saw client transactional activity rebound and market volatility return to more normalised levels, although corporate deal flow across various sectors remained weak. Impairments declined significantly, underpinned by the improving operating environment for clients, including the impact of the 300 bps lower interest rate, as well as the normalisation of forward-looking IFRS 9 portfolio impairments. The banking sector continues to demonstrate strong levels of resilience, remaining well capitalised, liquid and profitable.

Nedbank Group is committed to being fully compliant with all tax legislation and regulatory requirements in all the jurisdictions in which it operates. In 2021 the corporate income tax that Nedbank Group paid increased to R4,6bn (2020: R2,1bn) as a direct result of the improved operating environment, and managed R6,7bn (2020: R6,6bn) in tax collections or deductions on behalf of governments in respect of value-added tax, employees tax, outstanding debt collections and other withholding taxes.

I urge you to read our 2021 Integrated Report, as well as our Society Report, for more details on the other initiatives and social investments we have made this year.

Mike Davis

Chief Financial Officer

Introduction

The Nedbank Group Tax Review presents a detailed view of our strategic approach to tax and tax-related processes, tax governance and the Tax Risk Management Framework, stakeholder engagement and our tax contributions in the various jurisdictions in which we operate for the financial year ended 31 December 2021.

The review is guided by the principles and requirements contained in the IFRS, the King Code on Corporate Governance 2016 (King IV), the JSE Listings Requirements and the Global Reporting Initiative's Sustainability Reporting Standard on Tax (GRI 207).

We are a South African-focused banking group with a vision to be the most admired financial services provider in Africa by our stakeholders. We have a clear and driving purpose: to use our financial expertise to do good for individuals, families, businesses and society. In this Tax Review, in line with our purpose, we will position tax as a strategic asset to our stakeholders by showing how our approach to tax is linked to the SDGs, disclosing the wider economic impact analysis of our tax contributions, highlighting initiatives that support adherence to our key strategic tax principles, and providing specific information of our contribution as a strategic financial services role player to the tax collections system and tax reform.

In this review we provide tax and other financial information extracted from the audited consolidated annual financial statements at 31 December 2021.

We also provide information extracted from our country-by-country reporting (CbCr) submitted to the relevant revenue authorities in respect of the 2020 and 2019 financial years. Additional financial information in this review not sourced from our consolidated annual financial statements was compiled from information sourced from our subsidiaries, internal reporting and data management systems (which were subject to robust internal controls relevant to the preparation of this report) to ensure accuracy and completeness, as well as to avoid any material misstatement.

The Group Audit Committee (GAC) considered the integrity of this review and concluded that it adequately provides material disclosures of the group's tax matters.

Nedbank Group has mechanisms in place for reporting concerns about unethical or unlawful behaviour and integrity in relation to tax. In this regard, tax evasion and tax evasion facilitation are listed as financial crimes under Nedbank Group's Financial Crime Risk Management Framework and inappropriate behaviour by our employees linked to tax evasion is prohibited in terms of our Code of Ethics and Conduct policies.

Nedbank Group's approach to tax

Nedbank Group's tax strategy and approach to tax are reflected in its key tax principles as contained in the Nedbank Group Tax Policy, which the GAC reviews regularly.

Tax principles

Nedbank Group is committed to the following six key tax principles:

Responsible corporate citizen

- Being a responsible taxpayer that pays its fair share of tax within industry norms, acting with integrity when engaging with revenue authorities to support positive and sustainable relationships and, for the purposes of obtaining certainty of its tax positions, engaging with revenue authorities regarding the application of the tax law and identifying and resolving disagreements with the revenue authorities promptly.

Transparency

- Being transparent about the taxes that it pays to governments and its approach to tax to provide a better understanding to its stakeholders, manage their expectations and build trust among all stakeholders.

Risk management and governance

- Having strong governance, managing tax risks within the risk appetite guidelines of the group; seeking to identify, assess, control and report tax risks in accordance with its Tax Risk Management Framework; ensuring that the group has a sustainable effective tax rate and cash tax paid; ensuring that all adopted tax positions are subject to robust risk assessment and adequately supported; and ensuring that the reputation of the group is protected.

Constructive engagement

- Engaging constructively and cooperatively with revenue authorities and industry bodies in the interests of its stakeholders, and supporting the development of effective and efficient tax systems, laws and administration to support economic growth, job creation and long-term sustainable tax contributions.

Regulatory compliance

- Ensuring the integrity of all reported tax data and timely compliance with all relevant statutory tax obligations (including payment of all taxes) in the jurisdictions in which we operate, and continuously identifying and monitoring the potential impact of new tax legislation.

Nedbank Group's approach to tax continued

- Developing highly qualified tax professionals, with digital and analytical skills as part of a leading tax function.

Tax planning

The group applies the following principles to tax planning:

Zero tolerance for evading any tax liability or facilitating the evasion of any tax liability on behalf of a third party.

Zero appetite for transactions that have no valid commercial purpose other than obtaining a tax benefit.

Zero appetite for arrangements where the tax benefit is paid to clients, but the tax risk remains within the group.

May enter into transactions with significant tax uncertainty only if the commercial benefits clearly exceed the potential cost (ie risk-reward equation), and in this context risk appetite is guided by the 'more likely than not' principle.

Low appetite for arrangements that could rebound to the detriment of the group in the event of external disclosure, eg litigation, and accordingly the group enters only into transactions that can be fully justified if they become public.

May not purposefully structure its affairs to shift profits to low-tax jurisdictions or 'tax havens' and will operate in these jurisdictions only if there are valid business reasons and sufficient commercial substance.

May enter into cross-border transactions with controlled parties only on an arm's-length basis.

Tax governance and tax risk management

Nedbank Group's tax status is reported quarterly to the GAC, which is responsible for monitoring all significant tax matters, including compliance with the Nedbank Group Tax Policy.

Governance

The Nedbank Group Board is ultimately accountable for determining Nedbank Group's tax philosophy and approach and, together with the GAC, provides oversight of the tax practices and affairs of the group.

The tax philosophy and approach are incorporated in the Nedbank Group Tax Policy, which is reviewed and approved by the GAC annually and provides the mandatory minimum principles and standards for the management of tax risk across the group, including tax compliance, transaction planning and implementation. The policy applies to all taxes and tax-reporting obligations to relevant fiscal authorities in all jurisdictions in which the group carries on business.

The board holds the Chief Financial Officer accountable for ensuring compliance with the Nedbank Group Tax Policy. To this end, the Finance Forum, which the Chief Financial Officer has established and chairs, supports him in performing his duties to the board. The forum monitors tax compliance and compliance with the Nedbank Group Tax Policy, ensures that taxation risk is managed throughout the group, and deals with tax matters across the group. The forum meets monthly and is represented by the cluster chief financial officers and the Executive Head of Group Tax.

Nedbank Group's tax risk status is reported quarterly to the GAC, which is responsible for monitoring all significant tax matters, including compliance with the Nedbank Group Tax Policy.

The GAC also receives regular updates on changes to the tax landscape. An area of continued focus during the 2021 financial year was managing the outcome of the ongoing South African Revenue Service (SARS) audit in respect of corporate income taxes declared for the 2015 to 2017 years of assessment.

The Nedbank Group Tax Policy, the Tax Risk Management Framework and associated supporting procedures, standards and guidance documents are subject to periodic review by the Executive Head of Group Tax to ensure these are updated to reflect any changes in leading practice, tax risk governance and control standards, and changes in the organisational structure of Nedbank Group and in the external tax and regulatory environments. No significant changes were made to these documents in the past year and they were considered fit for purpose.

Tax risk management

Tax risk is managed in the context of Nedbank Group's Enterprisewide Risk Management Framework and the three-lines-of-defence model, which is the backbone of this framework. The Tax Risk Management Framework incorporates the group's approach to tax and aims to ensure that tax risks are identified, assessed, managed and reported appropriately and in accordance with the group's risk frameworks and principles. The Nedbank Group Board and GAC provide oversight of the Tax Risk Management Framework, considering the potential financial, legal, business and reputational risks of failing to detect and manage tax risks timeously.

Regular and transparent tax reporting is embedded in the governance structures of the group, including the GAC, various board committees and group and cluster executive committees.

At Nedbank Group, tax risk forms part of one of the 17 main risk categories comprising the enterprisewide risk universe, being accounting, financial and taxation risk. The group's risk taxonomy describes taxation risk as any event, action or inaction in tax strategy, operations, financial reporting or compliance that either adversely affects the group's tax objectives or results in an unanticipated or unacceptable level of tax liabilities. Tax risk can be divided into general risks that most commercial organisations are likely to face, and specific risks attached to

Tax governance and tax risk management continued

the industry in which the group operates, and can arise from the following:

- Non-compliance with tax regulations resulting in penalties, fines, payment of interest or under-provision for tax.
- Incorrect assessment, deduction and payment of tax liabilities.
- Ineffective tax planning and implementation.
- Inability to engage timeously with revenue authorities and other relevant governmental departments.

In terms of the Nedbank Group Tax Policy the tax implications of all significant business decisions must be evaluated, documented and approved by Group Tax, and the group must comply with all tax regulations in all the jurisdictions in which it operates. In this regard the group employs highly qualified tax professionals and takes advice from reputable professional firms, when appropriate.

The Tax Team is measured against the following key performance indicators:

- Level of compliance.
- Introduction of technology to enhance and improve the effectiveness and efficiency of the operational tax processes.
- Maintenance of an acceptable level of operational losses, such as tax penalties and tax interest, within a predetermined accepted loss tolerance level.
- Feedback from stakeholders, being regulators, shareholders and business.
- Management and resolution of key audit issues and regulatory disputes.
- Accurate and adequate provision and disclosure of all tax obligations.

Nedbank Group fully met all its key performance indicators during the 2021 financial year and is fully compliant with all its tax obligations in all the jurisdictions in which it operates.

Clients' tax positions remain their responsibility. **Nedbank Group requires clients, including high-net-worth clients, to confirm their worldwide tax obligations as part of its onboarding process.** In relation to the standardised products we offer, we advise clients of likely tax implications, and in the case of new products, tax implications are discussed and considered carefully at the appropriate governance committees. Some of these products often deliver tax incentives specifically introduced by government, such as tax-free savings accounts.

Tax evasion and fraud entail taxpayers' deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and include dishonest tax reporting (such as underdeclaring income, profits or gains, or overstating deductions). **Nedbank Group has a zero-tolerance approach to tax evasion and tax evasion facilitation and has implemented policies and procedures to prevent such conduct by its employees and associated parties.** These include having clear roles and responsibilities for preventing, detecting and responding to tax evasion; providing awareness training; promoting ethical behaviour; undertaking risk assessments to identify possible high-risk exposures; and encouraging employees to be vigilant and report any suspicions of tax evasion. **Employees are prohibited from any conduct and the giving of any advice to clients, suppliers and third parties in the course or scope of their employment that facilitates, supports or results in tax evasion.**

An annual questionnaire is distributed to boardmembers and prescribed officers to determine the related-party transactions and tax compliance of these individuals as required by IAS 24. These individuals confirm their tax status and standing with the revenue authorities. In alignment with King IV this demonstrates that Nedbank Group and its key representatives exhibit responsible corporate citizenship. These individuals also acknowledge that they pay their fair share of tax and are not party to any aggressive tax-planning transactions.

Group Internal Audit (GIA) and External Audit provide independent assurance on the effectiveness of the management of tax risk across Nedbank Group. GIA conducts process audits to express a view on the adequacy of the internal control environment. External Audit provides assurance on the appropriate compliance and financial frameworks in Nedbank Group, as well as through recomputing all tax calculations and confirming that there are adequate tax risk provisions against uncertain tax positions.

Uncertain tax positions and controversies

Due to the complex nature of tax there may be transactions and calculations for which the ultimate tax treatment is uncertain, and in these instances external advice may be obtained. Taking external advice into account, the 'more likely than not' principle will be applied in determining whether the tax position is uncertain. If the position is uncertain, relevant tax provisions will be raised and will affect the current or deferred tax computations. Uncertain tax positions are governed by the tax risk management principles.

Nedbank Group constantly reviews its level of tax provisioning across the group. As it can take several years to obtain finalisation in respect of some tax positions adopted in the tax returns, it is necessary to reflect the risk that the final tax liabilities could differ from the submitted tax computations. The level of provisioning involves management judgement. As a result, all major tax positions adopted are subject to review by executive management and reported to the GAC for approval. Nedbank has made adequate provision for any potential losses arising from tax exposures that are more likely to occur than not. The group has discussions with relevant revenue authorities on specific matters regarding the application and interpretation of tax legislation affecting the group and the industry in which it operates. The group has considered all matters in dispute with tax authorities and accounted for any exposure identified, if required.

Tax governance and tax risk management continued

During the 2021 financial year the following significant settlements were concluded in accordance with the provisions of the Tax Administration Act, 28 of 2011:

Voluntary disclosure in respect of VAT processing: R41m (including interest paid).

Request for corrections in respect of prior period tax assessments: R26,9m refunded.

In particular, an area of continued focus during the 2021 financial year was managing the outcome of the SARS audit in respect of corporate income taxes declared for the 2015 to 2017 years of assessment. SARS issued progress reports during the 2021 financial year and has concluded on most of the areas under audit without raising additional tax assessments. However, an additional assessment was raised for a particular transaction that was concluded in a prior period. The group had fully provided for the anticipated tax liability associated with this transaction and this assessment is currently under dispute with SARS.

Stakeholder engagement and the tax landscape

In line with the Nedbank Group tax principles, we engage constructively and cooperatively with revenue authorities and industry bodies in the interests of our stakeholders and support the development of effective and efficient tax systems, laws and administration.

Advocacy and lobbying activity

Nedbank Group participates actively in various industry bodies and forums where it can influence the outcome of revenue authority behaviour, taxpayers' rights and legislative changes.

The Banking Association South Africa (BASA), of which Nedbank Group is a member, is the mandatory representative of the banking sector. The BASA Taxation Committee focuses on direct and indirect tax issues and assists in formulating industry positions or motivations for tax reforms for various South African revenue acts, including the Income Tax Act, 58 of 1962; the Value-Added Tax Act, 89 of 1991; the Tax Administration Act, 28 of 2011; and all subsequent amendment acts that have a significant impact on BASA members. Similar industry bodies are in operation in Nedbank Africa Regions (NAR), and tax developments in all jurisdictions are monitored centrally by Nedbank Group.

The group is also a member of the CFO Forum Tax Committee, the South African Institute of Chartered Accountants (SAICA) National Tax Committee and the Association for Savings and Investment South Africa (ASISA) Tax Committee.

The BASA Taxation Committee seeks to promote discussions on issues relating to the revenue acts and assists BASA in advocating for the interests of its members in ensuring that the regulatory and supervisory framework takes cognisance of the relevant issues.

During 2021 Nedbank Group participated and provided input into the following initiatives:

- Establishing a consistent industry view about the account-freezing requirement incorporated in the amended regulations in respect of the Common Reporting Standards (CRS) as developed by the Organisation for Economic Cooperation and Development (OECD) (the new CRS regulations).
- Completing a general review and commenting on the tax amendment bills (2021).
- Addressing unintended tax consequences regarding the proposed tax amendments impacting the treatment of the rehypothecation of securities in collateral arrangements.
- Addressing tax challenges faced by employees working from home.
- Commenting on the SARS draft guide on the voluntary disclosure process.
- Advancing the tax ruling framework and process.

Nedbank Group complies with the Banking Accord (the accord) signed by SARS and BASA. The accord encourages the banking industry to promote tax compliance, both within banks and by their clients, to determine and review the effective tax rate of banks periodically; discourage the involvement in and promotion of impermissible tax avoidance arrangements; supply and disclose relevant information to SARS timeously; and regularly engage SARS in resolving any matters of dispute. The accord also encourages SARS to enhance the levels of service to BASA members from various initiatives such as adhering to statutory timelines, promoting compliance with the SARS Service Charter, dedicating skilled resources to the banking industry, and ensuring professionalism in the services provided to the industry. The accord further seeks to enhance the relationship between SARS and banks, and to provide greater certainty

Tax governance and tax risk management continued

about the interpretation and application of tax and customs laws, as well as the identification of tax risks. In addition, the accord has established the BASA/SARS Operational Forum to facilitate interaction between SARS and BASA in relation to all tax-related operational issues that are relevant to the banking industry and SARS. Nedbank Group pledged its commitment to facilitating and supporting SARS in the automation of third-party data processes and other SARS information technology initiatives.

BASA addressed the following operational issues and initiatives during 2021:

- Improving service delivery at SARS in the deceased-estate and trust sectors.
- Accessing SARS eFiling platforms through automated and robotics solutions.
- Improving taxpayer debt collection processes through third-party bank accounts.
- Mitigating illicit financial flows – Advanced Payment Notification (APN).

The OECD continues to drive the implementation of comprehensive measures to tackle domestic tax base erosion and profit shifting (BEPS) due to multinational enterprises

exploiting gaps and discrepancies between the tax systems of different countries. Developing countries rely more on corporate income tax, which means they suffer disproportionately from BEPS. Nedbank Group supports the aims of these various initiatives, which entail assisting tax regimes to develop in ways that make the tax system fairer and more transparent.

Over 140 countries, including SA, have worked together on the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) and are implementing 15 actions to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

The top priority of the Inclusive Framework is to develop a solution to address the tax challenges arising from the digitisation of the economy. Following a consultative process in 2019 and 2020, it released a package on 12 October 2020 consisting of the Report on the Pillar 1 and 2 Blueprint. Pillar 1 aims to expand the taxing rights of market jurisdictions where there is an active and sustained participation of a business in the economy of that jurisdiction. Pillar 2 introduces global anti-base-erosion rules to ensure a minimum level of effective taxation to address remaining BEPS concerns.

On 1 July 2021, 130 members of the Inclusive Framework agreed to a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The Pillar 1 scope excludes financial services industries following the lobbying efforts of the International Banking Federation (IBFed). BASA is a member of the IBFed and actively contributed to these efforts.

IBFed consistently advocated for an exclusion for global banks from Pillar 1 on the basis that banks do not operate in the same way as other businesses, which is the focus of Pillar 1. Banks are regulated entities and are generally required to have a presence in the jurisdictions where they operate. This means they are subject to tax on their profits in the jurisdictions where their clients are located or where they carry out their business.

On 8 October 2021, 136 members of the Inclusive Framework committed to these fundamental changes to the international corporate tax system. Under Pillar 2 the members agreed to enact a jurisdictional-level minimum-tax system, with a minimum effective tax rate (ETR) of 15% on corporate tax for multinationals. This will be charged to either the parent or subsidiary (branch) jurisdictions through revised rules. Banks are not excluded from these rules. IBFed's consultation focused on how the minimum tax would be calculated for multinational banks. Recent concerns for members during consultation with the OECD include the complexity of rules, compliance and reporting, the impact for offshore branches, the treatment of losses and bank levies, and the consistent treatment of regulatory instruments in calculating global income for the rate calculation.

The OECD communicated that a detailed implementation framework for Pillars 1 and 2 will be provided during 2022 to take effect by 2023. In his National Budget Address on 23 February 2022 the Minister of Finance indicated that SA will propose legislative amendments to implement these rules once the framework has been finalised and localised.

Tax landscape

Local tax landscape

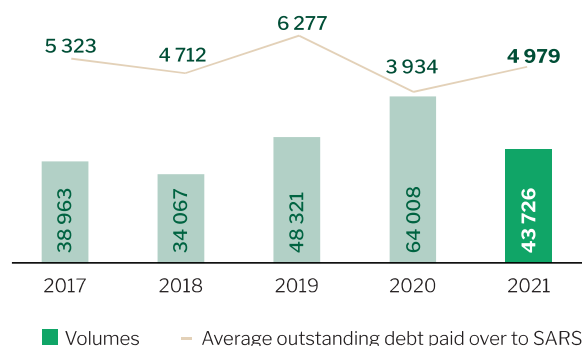
Nedbank Group has procedures in place to ensure that the group stays abreast of all key changes in the global tax landscape. Recent developments worth noting, and the group's response, are set out below.

SARS continues to make progress in rebuilding the tax agency and restoring stakeholder trust. In the past year it made improvements in rebuilding critical skills and capacity, invested R430m in refreshing and modernising its information communication technology (ICT) infrastructure, established a dedicated unit focusing on high-net-worth individuals, intensified initiatives to counter criminal and illicit activity, collected over R5bn through enforcement activities, and initiated various other modernisation and enforcement initiatives.

SARS has also implemented most of the Nugent Commission recommendations and is aligning unresolved recommendations with those of the State Capture Commission. Nedbank Group continues to support the Commissioner of SARS in these initiatives through constructive participation in relevant forums and modernisation initiatives.

SARS has also taken active steps to strengthen the management of its ICT systems, rebuild its technical prowess, and harness opportunities arising from information-sharing agreements between national tax authorities. Nedbank Group, as one of the largest contributors to the fiscus, is committed to assisting SARS with these initiatives and adhering to specific requests for information and special investigations, as well as monitoring and reporting on suspicious refunds. The following graph reflects the tax debt of third parties that Nedbank Group has collected on behalf of SARS, demonstrating the initiative between SARS and the group.

Local tax landscape
(Rm)



International tax landscape

In terms of transfer pricing documents there is a requirement to file both a master file with high-level information about global business operations and transfer pricing policies, as well as a local file with detailed transactional transfer pricing documents specific to each country, identifying material related-party transactions, the amounts involved in those transactions, as well as the company's analysis of the transfer pricing determinations that have been made regarding those transactions.

Nedbank Group adheres to the key principles set out in the BEPS package and the related regulations put in place by fiscal authorities. In this regard, the group adopted an internal policy that outlines and ensures key principles and mandatory requirements with which the business must comply to ensure that transfer pricing methodologies are applied consistently, the terms of all intergroup dealings are in accordance with the arm's-length principle, and that contemporaneous transfer pricing documents are maintained. Nedbank Group has been filing master file documents and CbCr based on financial reporting periods up to 31 December 2020. In the section titled 'Economic contribution of taxes paid', more information is provided on Nedbank Group's tax contribution on a country-by-country basis.

As a reporting financial institution, Nedbank Group is required to provide client information and client data to the relevant regulatory authority in terms of the United States Foreign Account Taxation Compliance Act (FATCA) and the CRS of the OECD. These standards also apply to our subsidiaries and operations in NAR and the United Kingdom (UK). During 2021 SARS published new CRS regulations. These new regulations now make provision, among other things, for the suspension or closure of a financial account under the risk management framework of the reporting financial institution and in line with the relevant anti-money-laundering and know-your-client procedures if the accountholder or controlling person does not provide the required self-certification. Nedbank Group implemented these new CRS regulations, which became effective from 1 June 2021. The Mandatory Disclosure Rules (MDR), which will take effect from 1 March 2023, are aligned with the MDR for CRS Avoidance Arrangements and Opaque Offshore Structures published by the OECD.

The amendment of the Council Directive 2011/16/EU on administrative cooperation in the field of taxation [commonly referred to as directive on administrative cooperation (DAC) 6], originally announced by the European Commission in June 2017, came into force with effect from 25 June 2018, and was implemented into UK legislation with retrospective effect from 25 June 2018. However, due to the UK exiting the European Union (EU), the requirements under DAC 6 have been relaxed, and now include only those in the OECD MDR, and became effective from 1 January 2021. Nedbank Group has fulfilled all its obligations in terms of DAC 6 by the relevant due dates.

Due to Nedbank Group's operations in London, the group subscribes to the UK Code of Practice on Taxation for Banks (the code), which was introduced on 9 December 2009. The code aims to ensure that banking groups operating in the UK comply with the spirit and the letter of the law when it comes to tax matters.

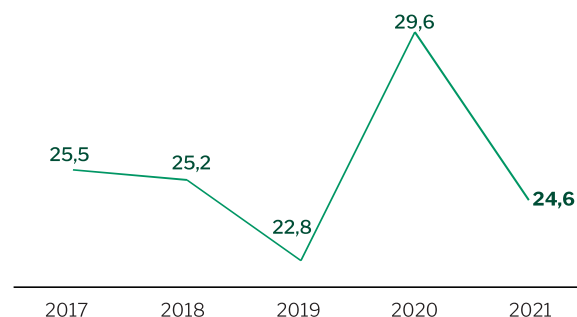
Tax numbers and performance

Nedbank Group constantly reviews its level of tax provisioning across the group.

The graph below depicts the five-year historical analysis of the effective tax rate for Nedbank Group.

Effective tax rate history

(%)



The effective tax rate for Nedbank Group at December 2021 was 24,6% (2020: 29,6%). The total direct tax charge for December 2021 was R4 043m (2020: R1 877m). This is lower than the statutory rate of 28% in relation to the profit before tax according to the income statement. A detailed reconciliation between the statutory tax rate and the effective tax rate, with an explanation of each adjustment, is provided opposite.

During the year, the group reviewed the presentation of its taxation rate reconciliation. As a result of this review, certain reconciling line items have been disaggregated to provide our users with additional information. 'Non-taxable income' has been disaggregated into 'Dividend income' [2020: (3,2%)] and 'NAR non-taxable amounts' [2020: (0,7%)] and 'Exempt income and special allowances' [2020: (0,2%)]. 'Non-deductible expenses' [2020: 3,1%] has been aggregated with 'Net monetary loss' [2020: 0,9%]. To provide comparability, the prior-year balances have been restated accordingly. In addition, the tax related to the impairments charge on non-financial instruments and other gains and losses has been incorporated into the group's effective taxation rate, whereas previously this line was excluded. The effective taxation rate for 2020, previously disclosed as 23,7%, was restated accordingly.

Following the initial announcement by the Minister of Finance (the Minister) on 24 February 2021 that the corporate income tax rate would change from 28% to 27%, the Minister further announced on 23 February 2022 that this change would be effective for years of assessment ending on or after 31 March 2023. Deferred tax balances at 31 December 2021 are reflected at 28% as this is the rate that was enacted substantively. The change in rate is considered a non-adjusting event and is applicable to Nedbank Group for the 2023 financial year. The group does not consider it practical to estimate the quantitative impact of the rate change at the date when the 2021 financial statements were authorised for issue.

Note 1: Exempt dividend income from listed and unlisted ordinary and preference shares.

Taxation rate reconciliation (%)	2021	2020 (Restated)
Standard rate of South African normal taxation	28,0	28,0
Dividend income (note 1)	(1,4)	(3,2)
Share of profits of associate companies	(1,3)	0,3
Capital items	(0,1)	0,7
Foreign income and s9D attribution	(0,5)	(1,4)
Additional tier 1 capital instruments (note 2)	(1,3)	(3,3)
Revenue losses not recognised	0,1	1,6
Impairment of non-financial instruments	0,5	4,8
Exempt income and special allowances	(0,4)	(0,2)
NAR non-taxable amounts	(0,5)	(0,7)
Non-deductible expenses (note 3)	1,1	4,0
Prior-year adjustments	0,4	(1,0)
Effective taxation rate	24,6	29,6
Non-cash tax items		
Share of profits of associate companies	1,3	(0,3)
Net monetary loss included in non-deductible expenses	0,1	(0,9)
Revenue losses not recognised	(0,1)	(1,6)
Prior-year adjustments	(0,4)	1,0
Impairment of non-financial instruments	(0,5)	(4,8)
Withholding taxes	-	(0,1)
Normalised effective tax rate	25,0	22,9
Timing differences:		
Credit impairments (note 4)	0,8	11,4
Accelerated asset allowances (note 5)	1,2	(1,9)
Other timing differences (note 6)	1,1	6,3
Long-term employee benefits	(0,8)	(1,0)
Equity items: Share-based payments (note 7)	(1,0)	(2,2)
Total cash tax rate	26,2	35,5

Note 2: Tax relief in respect of interest paid on tier 1 capital is accounted for in comprehensive income, although the interest paid is still accounted for in equity.

Note 3: Non-deductible expenses include the monetary loss sustained in Zimbabwe due to hyperinflation accounting.

Note 4: Tax relief is granted only based on the relevant stage of the credit impairment: stage 1 (25%), stage 2 (40%) and stage 3 (85%). The decrease in the cash tax rate in 2021 is due to the corresponding decrease in credit impairments during the year as reflected in comprehensive income.

Note 5: The decrease in the tax relief in 2021 is due to a change in the write-off period applicable to internally developed software with effect from 24 March 2020. During 2021 R1,9bn of self-developed costs were commissioned to software, which can now be deducted only for tax over a five-year period (refer to note F2.1 of the Integrated Report).

Note 6: Other timing differences include the net movement in provisions and prepayments.

Note 7: The cost associated with shares issued in terms of the employer incentive schemes is accounted for in the share-based payment reserve in equity.

Economic contribution of taxes paid

‘Our planet and its people are facing unprecedented risks and vulnerabilities, and the only suitable response is a systemic one that balances the need for decisive change with an absolute commitment to achieving the United Nations Sustainable Development Goals to ensure greater prosperity, social justice and equity for all. At Nedbank our strategies, actions and product offerings are guided and informed increasingly by this imperative.’

- Mpho Makwana, Chairperson.

Nedbank Group recognises that the tax it pays is crucial to the economic and social development of the countries in which it operates, and we are aware of the need for sustainable-development actions that not only address immediate challenges and crises, but also ensure social upliftment, inclusion, equity and access to opportunities for all. There are few regions in the world where sustainable development, balanced with social justice, is more needed than right here in Africa. We recognise and embrace the fact that society demands that we are more than a profit-driven commercial entity. Rather, we are a vital part of the ‘nested social system’ in which the economy is fundamentally dependent on society, and society is fully dependent on a well-functioning ecology.

This section of the report outlines the ways in which Nedbank Group aims to fulfil its purpose by using its financial expertise to do good by creating value for society. The group has prioritised 9 of the 17 SDGs in respect of which we believe we have the greatest ability to deliver a meaningful impact through innovation in our banking products, lending and investment practices.

The details of the group’s commitment to driving sustainable development are contained in the 2021 Nedbank Society Report. The purpose of this section is to link certain key items of the 2022 Budget proposals presented by the Minister to these 9 SDGs, and to highlight some of the progress m



SDG 4: Quality education

In 2017 government announced a policy for fee-free higher education. In the 2022 budget proposal the Minister announced an additional allocation of R32,6bn for financial support to current bursary-holders and first-year students under the National Student Financial Aid Scheme, as well as R24,6bn for provincial education departments to address the shortfalls in the compensation of teachers.

In 2021 Nedbank provided student loans to the value of R36m at an attractive interest rate with flexible repayment terms and partnered with our clients to solve the student accommodation challenge and invested R169m into the sector.



SDG 6: Clean water and sanitation

In the 2022 budget proposal the Minister provisionally allocated R17,5bn for infrastructure catalytic projects, including upgrades to roads, bridges, water and sewer, transport and school infrastructure as well as hospitals and clinics. Besides this, the Minister also approved funding for several water projects.

During 2021 Nedbank completed funding transactions to the value of R417m (plus R2bn in municipality deals) in the agricultural sector, where recipients used the money to replace ageing and inefficient irrigation systems with improved technology.

Nedbank was also awarded five public sector infrastructure finance tenders to the value of R363m to optimise water delivery to residents of Mpumalanga and Western Cape municipalities.

Economic contribution of taxes paid continued



SDG 7: Affordable and clean energy

In response to climate change, a carbon tax came into effect on 1 June 2019 and is aimed at reducing greenhouse gas (GHG) emissions in a sustainable, cost-effective and affordable manner.

Carbon tax gives effect to the polluter-pays principle and helps ensure that companies and consumers consider the negative adverse costs (externalities) of climate change in their future production, consumption and investment decisions.

In the 2022 budget proposal the Minister emphasised that the structure of the economy will need to change to respond to the need to address climate change. However, communities must not be left behind as production shifts to greener solutions. National Treasury is working with the new head of the Presidential Climate Finance Tax Team on accessing international finance to help pay for this transition. The carbon tax is the main mechanism to ensure we lower our GHG emissions. The carbon tax rate was proposed to increase from R134 to R144, with effect from 1 January 2022. The Minister also emphasised that, in line with SA's commitments at the UN Climate Change Conference (COP26), the carbon tax rate will increase every year to reach \$20 per tonne.

In Nedbank Group's case, it is only the installed diesel standby generators that currently trigger exposure to the carbon tax. Diesel is taxed indirectly (at the pump), which implies that the group already pays a carbon tax levy on its diesel use. Hence, no further (or direct) tax is payable.

The carbon tax liability of the group's client base can differ greatly, varying from direct to indirect liabilities that could result in a substantial additional tax burden.

During 2021 Nedbank adopted an **energy policy that serves to guide the transition away from fossil fuels, while accelerating efforts to finance non-fossil energy solutions needed to support socioeconomic development and build resilience to climate change**, including renewable-energy, energy efficiency, energy storage, electrification of high-emitting sectors and other emerging technologies such as hydrogen if, when and where appropriate.



SDG 8: Decent work and economic growth

In the 2022 budget proposals the Minister budgeted R5,2bn in tax relief to support economic recovery, provide some respite from fuel tax increases, and boost incentives for youth employment. The employment tax incentive will be expanded through a 50% increase in the maximum monthly value to R1 500. One of the key components of Nedbank Group's commitment to the UN SDGs is a concerted and an ongoing effort to help build SA as an inclusive, thriving and opportunity-rich country in which all its people can rise above their circumstances and create the futures they desire. The group's support of the Youth Employment Service (YES) initiative epitomises this commitment to meaningful job creation and reducing the unacceptably high levels of youth unemployment in our country.

YES, which President Cyril Ramaphosa launched officially in 2018, is a joint initiative between government, business, labour and civil society to implement collectively a national plan to build sustainable economic pathways for our nation's youth. Deliverables include the creation of sustainable programmes aimed at equipping youth with skills and knowledge to enhance their employability, and facilitating, as much as possible, their absorption into the workplace to make them contributors to long-term economic development.

Nedbank Group was one of the first corporates in SA to sign up as a partner to the YES initiative, having committed to creating skills transfer and employment opportunities for young South Africans, through either direct employment within the group or supported job opportunities through placement partners.

. The incentive is aimed at encouraging employers to hire young employees. It reduces employers' cost of hiring young people through a cost-sharing mechanism with government that allows employers to reduce the amount of pay-as-you-earn (PAYE) they pay while not affecting the wages employees receive.



SDG 9: Industry, innovation and infrastructure

In the 2022 budget proposals the Minister indicated that changes were proposed to Regulation 28 of the Pension Funds Act, 24 of 1956, setting out the criteria through which these funds may make investments to enable greater investment in infrastructure using these funds.

Nedbank Group contributed towards the achievement of this SDG through funding of infrastructure, including mass transit, road and rail corridors, renewable energy, water treatment plants, ICT, as well as affordable housing, schools and hospitals.



SDG 10: Reduce inequalities

In the 2022 budget proposals the Minister allocated the largest portion of the budget to the Department of Social Development for a new extended child support grant for double orphans, inflationary increases to permanent social grants as well as the old-age, war veterans, disability and care dependency, and foster care and child support grants, and the extension of the Social Relief of Distress grant.

During 2021 Nedbank Group continued to leverage resources and technology to help the communities in which it operates to achieve more inclusive financial wellness, reaching over 15,2 million people across SA through various initiatives and channels, including ration stations, personal workshops, digital platforms and social and mass media.



SDG 11: Sustainable cities and communities

In the year under review Nedbank structured and arranged a R1,09bn Green Residential Development Bond, issued under its domestic medium-term note programme and listed on the Sustainability Segment of the JSE on 10 December 2021. This innovative instrument is a first of its kind from a commercial bank in Africa and is the result of a collaborative effort with the International Finance Corporation to develop a blended finance solution that would enable the scaling up of green building financing, particularly in the residential sector. This is critical to supporting the decarbonisation of SA's built environment.

The solution will offer Nedbank clients in the affordable-housing segment with attractive funding for green-accredited homes in green residential developments. Technical training and certification support for the bank and prospective developer clients will also be provided.



SDG 12: Responsible consumption and production

During 2021 Nedbank Group approved a R100m facility for the importation and installation of polyolefin (rigid plastics) recycling equipment.



SDG 15: Life on land

Besides working with our clients, we work with key stakeholders such as the World Wildlife Fund (WWF), and one of the focus areas of the current partnership between Nedbank and the WWF is safeguarding critical water source areas, biodiversity hotspots and rural livelihoods.

Economic contribution of taxes paid continued

Nedbank Group is one of the largest financial services groups in Africa, offering wholesale and retail banking services as well as insurance, asset management and wealth management services. In SA Nedbank has a strong franchise evidenced by R1,2tn in assets (16,7% South African market share). Outside SA the group operates in five countries in the Southern African Development Community (SADC) region, through subsidiaries in Lesotho, Mozambique, Namibia, Eswatini and Zimbabwe. We have a strategic alliance with Ecobank Transnational Incorporated (ETI), covering Central and West Africa, and we have representative offices in Kenya.

Outside Africa we have a presence in key global financial centres to provide international financial services for Africa-based multinational and high-net-worth clients in Isle of Man, Jersey and London, and we have a representative office in Dubai.

We recognise that we have a responsibility not only to be good with money, but also to do good with money. Our core purpose as a bank is therefore to use our financial expertise to do good for individuals, families, businesses and society across the country and the continent. By seeing money differently in this way, we are confident that we will achieve our vision of being Africa's most-admired financial services provider.

The world faces massive economic, social and environmental challenges as a result of a steady population growth, growing levels of consumption and climate change, with challenges ranging from unemployment and income inequality to an increasing disease burden and food and water deficiencies.

Against this background Nedbank Group recognises that the tax it pays is vital to the economic and social development of the countries in which it operates, and that it has a responsibility to comply fully with the regulations in these countries. This section of the report sets out the group's total economic contribution for the 2021 financial year, compared with the total economic contribution for 2020.

Taxes contributed to the revenue authorities can be categorised as follows:

Nedbank Group's direct cash tax contribution in each country, consisting mostly of tax on profits, securities transfer tax (STT), as well as withholding taxes on dividends, management fees and interest received.

Cash taxes collected by the group on behalf of revenue authorities, including PAYE, skills development levies (SDLs) and Unemployment Insurance Fund (UIF) contributions, which would not have been collected if the group had not employed people.

Consumption taxes and value-added tax (VAT) that the group collected on behalf of revenue authorities, which would not have been collected had the group not offered financial services or financial products to the clients responsible for paying the relevant tax, or had the group not procured from its suppliers goods and services on which these taxes are due. Being a bank, we can claim back only a relatively small proportion of the VAT we have incurred, resulting in a significant cost that we absorb.

Taxes paid to other spheres of government, excluding taxes raised by revenue authorities in line with the country's direct-taxation regime, such as rates and taxes and levies.

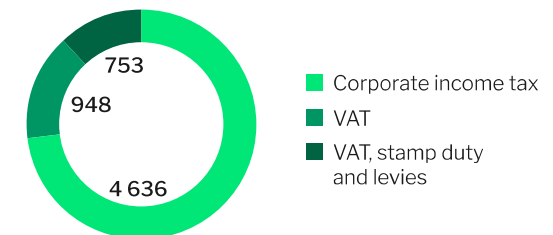
The group annually declares interim and final dividends to shareholders, which result in dividend tax being withheld from shareholders that are liable for the tax and paid over to the revenue authority. Had the group not generated profits, it would not have had to pay dividends to shareholders. In 2020 the SARB Prudential Authority (PA) issued guidance notes that encouraged boards of banks to be prudent when making decisions relating to distributions of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risktakers in 2020. The group resumed the payment of dividends during H1 2021, supported by its robust balance sheet and strong earnings growth off a low base. The 2021 full-year dividend amounted to R6bn (1 191 cents per share).

Tax debts of third parties that the group collected on behalf of revenue authorities.

Nedbank Group's total tax contribution for 2021 amounted to R11 289m (of which R6 337m represents taxes contributed by the group and R4 952m represents taxes collected by the group) **compared with R8 720m in 2020** (of which R3 437m represents taxes contributed by the group and R5 283m represents taxes collected by the group). Both are illustrated in the graphs below.

Taxes paid in 2021

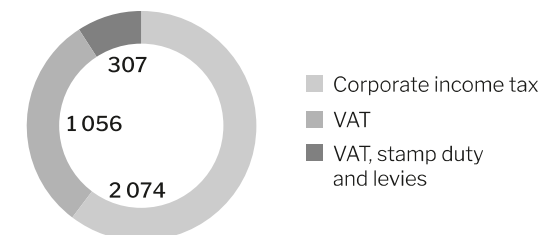
(Rm)



The majority of the increase in levies is due to the increase in the state taxes charged on ATM transactions and associated funds transferred in Zimbabwe.

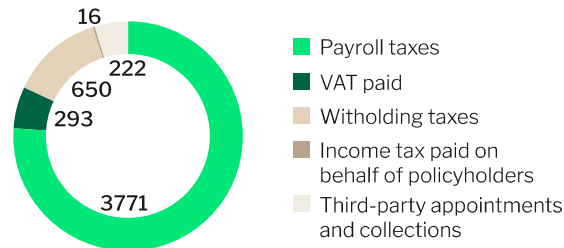
Taxes paid in 2020

(Rm)

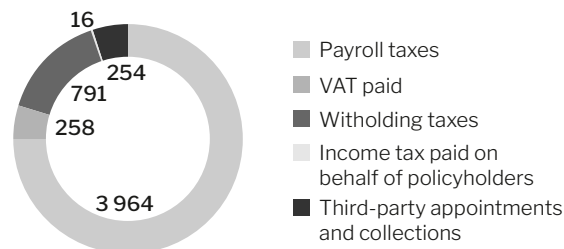


Economic contribution of taxes paid continued

Taxes collected on behalf of revenue authorities in 2021 (Rm)



Taxes collected on behalf of revenue authorities in 2020 (Rm)



OECD country-by-country reporting

Since December 2017 the OECD CbCr requires that multinational enterprises (MNE) report on their operations in every country in which they operate. These reports will enable revenue authorities to assess transfer pricing risks and other BEPS-related risks with respect to the MNE groups operating in their countries. The OECD does not require this information to be published and recommends that tax authorities limit their use of it to high-level risk assessments only.

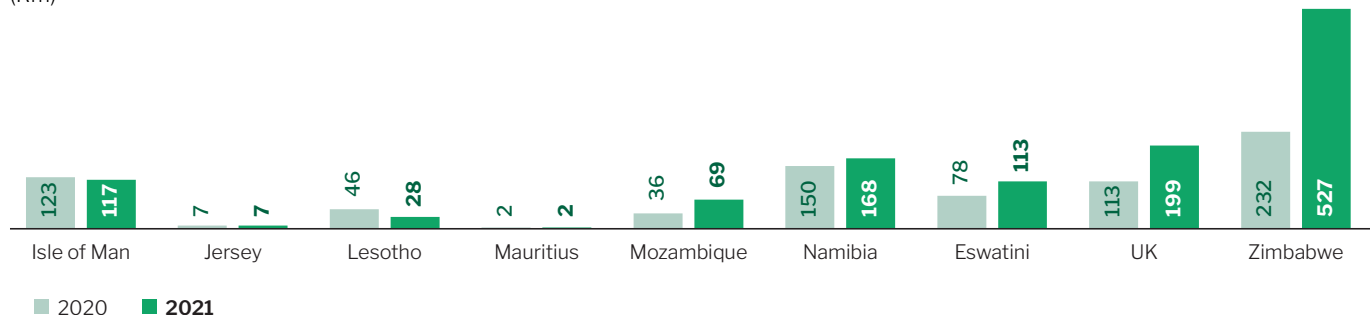
Due to the extent of the transparency in the disclosure contained in the tax report, we have no hesitation in sharing the salient points of the CbCr. CbCr is the reporting of financial, economic, and tax-related information for each jurisdiction in which we operate.

Nedbank Group is one of the largest financial services groups in Africa, offering wholesale and retail banking services, as well as insurance, asset management and wealth management.

Outside SA we operate in five countries in SADC, through subsidiaries and banks in Lesotho, Mozambique, Namibia, Eswatini and Zimbabwe. In Central and West Africa we have a strategic alliance with ETI and have representative offices in Kenya. Outside Africa we have a presence in key global financial centres to provide international financial services for Africa-based multinational and high-net-worth clients in Guernsey, Isle of Man, Jersey and London, with a representative office in Dubai.

Rest-of-world tax contribution

(Rm)



The increase in the tax contribution in Zimbabwe in 2021 is due to the increase in state taxes charged on ATM transactions and associated funds transferred.

The tables on the following page reflect the CbCr information as submitted to the revenue authority for the 2020 and 2019 financial years. The CbCr period differs from the financial reporting period under review because the 2021 CbCr information will be available only at a later stage when the tax returns and supporting schedules are completed.

Nedbank has a predominately South African footprint, with 88% of total group revenues being generated from SA. If the UK's and Namibia's revenues are added, this makes up 96% of total group revenues.

Total revenue

In total 88% (2019: 92%) of the total revenue of Nedbank Group was generated in SA, followed by 6% (2019: 4%) generated in England and Wales. The remaining 6% (2019: 4%) was generated in the rest of the world.

Headcount

Altogether 90% (2019: 90%) of the headcount of Nedbank Group was based in SA, followed by 3% (2019: 3%) based in Namibia. The remaining 7% (2019: 7%) was based in the rest of the world.

Total tax contribution

In total 89% (2020: 91%) of the tax was contributed from SA and the remaining 11% (2020: 9%) was contributed by the rest of the world. Refer to the geographical split of the tax contribution in the graph below.

Economic contribution of taxes paid continued

CbCr for Nedbank Group at 31 December 2020

Tax jurisdiction	Unrelated-party revenue (R'000)	Related-party revenue (R'000)	Total revenue (R'000)	Profit (Loss) before tax (R'000)	Income tax paid (on cash basis) (R'000)	Income tax accrued – current year (R'000)	Stated capital (R'000)	Accumulated earnings (R'000)	Tangible assets other than cash and cash equivalents (R'000)	Headcount
SA	71 489 127	6 465 434	77 954 561	6 353 938	1 813 587	2 283 622	47 331 895	53 188 924	51 411 536	24 858
England and Wales	4 906 634	252 775	5 159 409	200 245	103 471	39 743	1 800 746	2 263 626	162 135	42
Guernsey	131 304	-	131 304	47 453	515	4 744	1 271	99 527	4 528	34
Isle of Man	883 590	50 568	934 158	330 051	33 753	15 499	6 760 715	-103 730	5 163 554	261
Jersey	43 157	-	43 157	4 205	833	423	424	27 162	-	10
Lesotho	312 449	85 992	398 441	31 805	10 080	9 129	20 000	508 794	118 987	275
Mauritius	872	3 599	4 472	-3 331	-	-	299 529	-342 300	30	4
Mozambique	746 469	2 811	749 280	41 947	31 474	38 678	562 758	157 253	213 678	620
Namibia	1 798 352	260 417	2 058 769	96 943	26 872	9 279	219 523	2 158 085	689 186	785
Eswatini	597 457	17 325	614 782	112 518	32 787	34 289	22 375	413 312	138 905	301
Zimbabwe	658 184	3 163	661 347	378 792	36 467	74 863	246 134	1 117 339	100 673	315
TOTAL	81 567 595	7 142 084	88 709 680	7 594 566	2 089 839	2 510 263	57 265 370	59 487 992	58 003 212	27 505

CbCr for Nedbank Group at 31 December 2019

Tax jurisdiction	Unrelated-party revenue (R'000)	Related-party revenue (R'000)	Total revenue (R'000)	Profit (Loss) before tax (R'000)	Income tax paid (on cash basis) (R'000)	Income tax accrued – current year (R'000)	Stated capital (R'000)	Accumulated earnings (R'000)	Tangible assets other than cash and cash equivalents (R'000)	Headcount
SA	137 437 761	7 831 368	145 269 129	14 221 297	3 555 215	3 778 845	46 925 725	57 009 688	53 124 854	27 317
England and Wales	5 239 585	330 976	5 570 561	880 794	190 325	167 680	27 534	2 115 907	21 965	44
Guernsey	102 571	-	102 571	31 685	4 174	3 174	1 271	58 084	7 136	42
Isle of Man	1 054 864	86 087	1 140 950	479 384	12 782	19 045	7 380 234	144 765	4 361 304	295
Jersey	40 015	-	40 015	7 769	1 152	771	424	22 114	-	14
Lesotho	348 762	101 097	449 859	80 976	21 773	20 648	20 000	480 564	110 839	278
Malawi	153 444	379	153 823	-64 587	-	902	162 097	-128 279	644 563	176
Mauritius	1 836	3 861	5 697	-289 299	-	-	299 529	-338 558	46	4
Mozambique	821 750	7	821 758	140 732	42 351	23 255	562 758	263 076	289 355	622
Namibia	2 021 739	367 356	2 389 095	397 292	83 359	62 946	219 523	2 295 353	533 605	774
Eswatini	642 657	10 039	652 696	171 102	58 706	49 646	22 375	420 883	137 180	302
Zimbabwe	502 057	2 934	504 991	229 078	26 110	68 518	246 134	879 652	105 242	367
TOTAL	148 367 041	8 734 104	157 101 145	16 286 223	3 995 947	4 195 430	55 867 605	63 223 249	59 336 089	30 235

Note: Nedbank Malawi was sold during 2020.

