

APPLICABLE PRICING SUPPLEMENT – TIER 2 NOTES – BASEL III ACCORD



NEDBANK LIMITED

(incorporated with limited liability under registration number 1951/000009/06 in the Republic of South Africa)

ZAR40,000,000,000 DOMESTIC MEDIUM TERM NOTE PROGRAMME

Issue of ZAR1,800,000,000 Subordinated Floating Rate Notes due 25 July 2023

General

This document constitutes the Applicable Pricing Supplement relating to the issue of the Tranche of Notes described herein ("**Notes**" and "**this Tranche**").

This Applicable Pricing Supplement (including, subject to Item G(2) below, Annexure "A" to this Applicable Pricing Supplement headed "*Risk Factors and South African Taxation*") must be read in conjunction with the consolidated Programme Memorandum, dated 24 May 2010, as supplemented by the Supplement, dated 3 June 2011, and as further amended and/or supplemented from time to time ("**Programme Memorandum**") prepared by Nedbank Limited ("**Issuer**") in connection with the Nedbank Limited ZAR40,000,000,000 Domestic Medium Term Note Programme ("**Programme**").

The original Programme Memorandum, dated 15 December 2003, was approved by The Bond Exchange of South Africa Limited on or about 10 December 2003 and the consolidated Programme Memorandum, dated 24 May 2010, was approved by the JSE Limited ("**JSE**") on or about 24 May 2010.

To the extent that there is any conflict or inconsistency between the provisions of this Applicable Pricing Supplement and the Programme Memorandum, the provisions of this Applicable Pricing Supplement shall prevail (see Item G(1) and Item G(2) below).

Any capitalised terms not defined in this Applicable Pricing Supplement shall (subject to Item G(1) below) have the meanings ascribed to them in the section of the Programme Memorandum headed "*Terms and Conditions of the Unsubordinated Notes, Tier 2 Notes and Tier 3 Notes*" ("**Ordinary Conditions**").

References to any Condition in this Applicable Pricing Supplement are to that Condition of the Ordinary Conditions.

Banks Act, 1990

On 16 December 2010 the Basel Committee on Banking Supervision published the documents entitled "*Basel Committee on Banking Supervision – Basel III: A global regulatory framework for more resilient banks and banking systems – December 2010 (rev June 2011)*" and "*Basel Committee on Banking Supervision – Basel III: International Framework for liquidity risk measurements, standards and monitoring – December 2010 [(rev June 2011)]*" (such documents as supplemented and/or amended from time to time, being the "**Basel III Accord**").

The Banks Act, 1990 as at the Issue Date ("**Current Banks Act**"), will be amended (substantially in accordance with the Banks Amendment Bill [B43 – 2012] referred to in Notice 942 published in *Government Gazette* No 35880 of 16 November 2012 ("**Bill**") to provide, among other things, for the implementation of the Basel III Accord (or the applicable provisions thereof) in South Africa (such amended Banks Act, 1990, as thereafter supplemented and/or amended from time to time, being the "**Amended Banks Act**").

The date on which the Current Banks Act, as amended substantially in accordance with the Bill, is promulgated and comes into force is referred to in this Applicable Pricing Supplement as the "**Effective Date**".

References in this Applicable Pricing Supplement to the "**Banks Act**" are, unless the context clearly otherwise requires, to the Current Banks Act or, upon the Effective Date, the Amended Banks Act, as applicable.

The amended Regulations Relating to Banks (which came into operation on 1 January 2013) published as No. R. 1029 in *Government Gazette* No. 35950 of 12 December 2012 provide, among other things, for the implementation of the Basel III Accord (or the applicable provisions thereof) in South Africa and the requirements with which specified categories of instruments and/or shares must comply in order for the proceeds of the issue thereof to qualify for inclusion in the regulatory capital of banks (such amended Regulations Relating to Banks, as thereafter supplemented and/or amended from time to time, being the "**Regulations Relating to Banks**").

The proceeds of the issue of this Tranche are intended to rank as "*tier 2 capital*" as defined in the Bill or, upon the Effective Date, as defined in the Amended Banks Act, as applicable ("**Tier 2 Capital**").

In order for the proceeds of the issue of this Tranche (and any other Capital Instruments (as defined in Item E(7)(b) below) issued by the Issuer) to rank as Tier 2 Capital (collectively, "**Tier 2 Notes**"), the issue, and terms and conditions of, Tier 2 Notes (including this Tranche) must comply with Regulation 38(14) of the Regulations Relating to Banks as read with such circular/s, guidance note/s, directive/s and/or policy/ies as are issued from time to time by the Relevant Authority (as defined in Item E(7)(b) below), under the Banks Act, in relation to Tier 2 Notes (such Regulation 38(14) as read with such circular/s, guidance note/s, directive/s and/or policy/ies, being the "**Tier 2 Capital Regulations**").

A. DESCRIPTION OF THE NOTES

1.	Issuer	Nedbank Limited
2.	Tranche number	3
3.	Series number	2
4.	Status of the Notes	Subordinated Notes

Tier 2 Notes (including this Tranche) rank senior to (and senior in respect of the rights and claims of the holders of) all:

- a) Ordinary Shares;
- b) Non-Redeemable Non-Cumulative Preference Shares and hybrid debt instruments (if any) in issue under the Programme the proceeds of which qualify as Primary Share Capital;
- c) equity shares and instruments (including hybrid debt instruments) issued by the Issuer the proceeds of which rank as "*common equity tier 1 capital*" as defined in the Bill or, upon the Effective Date, as defined in the Amended Banks Act, as applicable ("**Common Equity Tier 1 Capital**");
- d) hybrid debt instruments (if any) in issue under the Programme the proceeds of which qualify as Undated Tier 2 Capital; and
- e) shares and instruments (including debt and/or hybrid debt instruments) issued by the Issuer the proceeds of which rank as "*additional tier 1 capital*" as defined in the Bill or, upon the Effective Date, as defined in the Amended Banks Act, as applicable ("**Additional Tier 1 Capital**").

If the Issuer is wound-up or placed under liquidation or curatorship, whether voluntarily or involuntarily, holders of Tier 2 Notes (including this Tranche) will not be entitled to any payments in respect of the Tier 2 Notes (including this Tranche) until the claims of Depositors (as defined below) and Senior Creditors (as defined below) which are admissible in any such winding-up, liquidation or curatorship have been paid or discharged in full, as more fully set out (subject to this Item A(4) and Item G(1) below) in Condition 5.2 (*Status of the Tier 3 Notes and the Dated Tier 2 Notes*).

For purposes of this Applicable Pricing Supplement (including, in particular this Item A(4)) and Condition 5.2 (*Status of the Tier 3 Notes and the Dated Tier 2 Notes*) (as read with Item G(1) below), the following terms shall, notwithstanding the definitions thereof in Condition 1.1 (*Definitions*), bear the following meanings:

"Depositors" means any Person having a claim against the Issuer in respect of a "deposit" (as defined in the Banks Act);

"Senior Creditors" means:

- a) all creditors of the Issuer (including, without limitation, the holders of Unsubordinated Notes and the holders of Existing Unsubordinated Notes) who are unsubordinated creditors of the Issuer; and
- b) all creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer EXCLUDING creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the Dated Subordinated Noteholders and/or the holders of Tier 2 Notes (including this Tranche).

5.	Security	Unsecured
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6.	Form of the Notes	Registered Notes.
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The Notes in this Tranche are issued in registered uncertificated form and will be held in the Central Securities Depository.

7.	Type of Notes	Tier 2 Notes - Floating Rate Notes
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8.	Issue Date/First Settlement Date	24 July 2013
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9.	Issue Price	100%
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10.	Interest	Floating Rate Note Provisions (see Condition 8.2 (<i>Floating Rate Note Provisions and Index-Linked Interest Note Provisions</i>) (subject to Item G(1) below) and Item C below)
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| 11. | Redemption/Payment Basis | Redemption at par |
| 12. | Change of interest or redemption payment basis | Not Applicable |
| 13. | Aggregate Principal Amount of this Tranche | ZAR1,800,000,000 |
| 14. | Specified Currency | ZAR |
| 15. | Specified Denomination (Principal Amount per Note) | ZAR1,000,000 |
| 16. | Minimum Specified Denomination of each Note | ZAR1,000,000 |
| 17. | Calculation Amount | ZAR1,000,000 |
| 18. | Business Day Convention | Modified Following Business Day Convention |
| 19. | Day Count Fraction | Actual/365 |
- B. PROGRAMME AMOUNT**
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| 1. | Programme Amount as at the Issue Date | ZAR40 billion |
| 2. | Aggregate outstanding Principal Amount of all of the Notes issued under the Programme as at the Issue Date | ZAR24,100,000,000, excluding the aggregate Principal Amount of this Tranche and any other Tranche(s) of Notes issued on the Issue Date specified in Item A(8) above. |
- C. FLOATING RATE NOTE PROVISIONS**
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| 1. | Rate of Interest | The Notes will bear interest at the floating Rate of Interest per annum (nominal annual compounded quarterly) equal to the sum of the Reference Rate (see Item C(7)(b) below) plus the Margin (see Item C(8) below), determined by the Calculation Agent in accordance with Condition 8.2.7 (<i>Calculation of Interest Amount</i>) (as read with Item G(1) below), for the period from and including the Issue Date to but excluding the Redemption Date. |
| 2. | Interest Commencement Date | 24 July 2013 |
| 3. | Interest Payment Date(s) | Quarterly in arrear on 25 October, 25 January, 25 April and 25 July of each year until the Redemption Date. |
| 4. | First Interest Payment Date | 25 October 2013 |
| 5. | Interest Periods | The first Interest Period shall commence on (and include) the Interest Commencement Date and end on (but exclude) the first Interest Payment Date. Thereafter, each successive Interest Period shall commence on (and include) the immediately preceding Interest Payment Date and end on (but exclude) the immediately following Interest Payment Date; provided that the final Interest Period shall end on (but exclude) the Redemption Date. |
| 6. | Interest Determination Date/s | The first day of each Interest Period; provided that the Interest Determination Date for the first Interest Period shall be 19 July 2013.

If any such date is not a Business Day, the Interest Determination Date will be the first following day that is a Business Day, unless it would thereby fall into the next calendar month, in which event the Interest Determination Date will be brought forward to the first preceding Business Day. |
| 7. | Manner in which the Rate of Interest is to be determined | Screen Rate Determination |
| (a) | If ISDA Determination applicable: | Not Applicable |
| (b) | If Screen Rate Determination applicable: | Applicable |
| • | Reference Rate | JIBAR (being, subject to Condition 8.2.3 (<i>Screen Rate Determination</i>) (as read with Item G(1) below), the average mid-market yield rate per annum for 3-month deposits in Rand which appears on the Relevant Screen Page as the "SFX 3M YIELD" at or about the Relevant Time on the Interest Determination Date, determined by the |

		Calculation Agent in accordance with Condition 8.2.7 (<i>Calculation of Interest Amount</i>) (as read with Item G(1) below).
	• Relevant Screen Page	Reuters Screen SAFETY page
	• Relevant Time	11h00 (South African time)
	• Relevant Financial Centre	Johannesburg
(c)	If Other Determination applicable:	Not Applicable
8.	Margin	2.75%
9.	Minimum Rate of Interest	Not Applicable
10.	Maximum Rate of Interest	Not Applicable
11.	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest for Floating Rate Notes	Not Applicable
D.	REDEMPTION	
1.	Maturity Date	25 July 2023
2.	Final Redemption Amount	The aggregate outstanding Principal Amount of this Tranche (plus accrued interest, if any).
3.	Prior approval of the Relevant Authority required for redemption prior to the Maturity Date	Yes
4.	Call Option:	Applicable – see Condition 9.4 (<i>Redemption at the option of the Issuer</i>) (subject to Item G(1) below and subject to the conditions specified in Regulation 38(14)(a)(iv)(H) of the Tier 2 Capital Regulations).
(a)	<i>Redemption in whole:</i>	Applicable
	• Optional Redemption Date (Call)	25 July 2018
	• Optional Redemption Amount (Call)	The aggregate outstanding Principal Amount of this Tranche (plus accrued interest, if any).
(b)	<i>Redemption in part:</i>	Not Applicable
5.	Put Option:	Not Applicable
6.	Optional early redemption following a Tax Event:	Applicable - see Condition 9.2 (<i>Redemption for tax reasons</i>) (subject to Item G(1) below and the conditions specified in Regulation 38(14)(a)(iv)(H) of the Tier 2 Capital Regulations).
(a)	<i>Redemption in whole:</i>	Applicable
	• Redemption Date	Subject to Condition 9.2.1 (<i>Redemption for tax reasons</i>) (as read with Item G(1) below), the Interest Payment Date stipulated as the date for redemption in the notice of redemption given by the Issuer in terms of Condition 9.2.1 (<i>Redemption for tax reasons</i>) (as read with Item G(1) below).
	• Early Redemption Amount (Tax)	The aggregate outstanding Principal Amount of this Tranche (plus accrued interest, if any).
(b)	<i>Redemption in part:</i>	Not Applicable
7.	Optional early redemption following a Regulatory Event:	Applicable - see Condition 9.3 (<i>Redemption for regulatory reasons</i>) (subject to Item G(1) below and the conditions specified in Regulation 38(14)(a)(iv)(H) of the Tier 2 Capital Regulations).
(a)	<i>Redemption in whole:</i>	Applicable
	• Redemption Date	Subject to Condition 9.3.1 (<i>Redemption for regulatory reasons</i>) (as read with Item G(1) below), the Interest Payment Date stipulated as the date for redemption in the notice of redemption given by the Issuer in terms of Condition 9.3.1 (<i>Redemption for regulatory reasons</i>) (as read with Item G(1) below).
	• Early Redemption Amount (Regulatory)	The aggregate outstanding Principal Amount of this Tranche (plus accrued interest, if any).

- (b) **Definitions:**
- For purposes of this Applicable Pricing Supplement (including, in particular this Item D(7) below) and Condition 9.3 (*Redemption for regulatory reasons*) (as read with Item G(1) below), the following terms shall, notwithstanding the definitions thereof in Condition 1.1 (*Definitions*), bear the following meanings:
- **Capital Instruments** "Capital Instruments" means the specified categories of instruments and/or shares contemplated in Regulations 38(13) and 38(14) of the Regulations Relating to Banks, the proceeds of the issue of which instruments and/or shares rank (or are intended to rank) as Regulatory Capital.
 - **Capital Regulations** "Capital Regulations" means, at any time, any (i) legislation (including the Banks Act), (ii) regulations (including the Regulations Relating to Banks and the Tier 2 Capital Regulations), (iii) requirements, circulars, guidance notes, directives and/or policies relating to capital adequacy and/or the requirements with which Capital Instruments must comply in order for the proceeds of the issue thereof to qualify for inclusion in the Regulatory Capital of a bank and/or its "controlling company" (as defined in the Banks Act) and/or (iv) conditions prescribed by the Relevant Authority for the proceeds of the issue of Capital Instruments to rank as Regulatory Capital, then in effect in South Africa in relation to a bank and/or its "controlling company" (as defined in the Banks Act) registered as such under the Banks Act.
 - **Regulatory Capital** "Regulatory Capital" means, as applicable, Tier 2 Capital or Additional Tier 1 Capital or Common Equity Tier 1 Capital.
 - **Regulatory Change** A "Regulatory Change" means (i) a change in or amendment to the Capital Regulations or (ii) any change in the application of or official or generally published guidance or interpretation of the Capital Regulations by the Relevant Authority, which change or amendment becomes, or would become, effective on or after the Issue Date.
 - **Regulatory Event** A "Regulatory Event" is deemed to have occurred if, as a result only of any Regulatory Change, the whole or any part of the aggregate Principal Amount of Tier 2 Notes and/or the Notes is excluded from qualifying as Tier 2 Capital and the Relevant Authority has notified the Issuer (either specifically or generally in conjunction with other banks) in writing of the relevant amendment or change. For the avoidance of doubt, a Regulatory Event shall be deemed to have occurred if all or part of the aggregate Principal Amount of Tier 2 Notes and/or the Notes is excluded from qualifying as Tier 2 Capital by reason of any grandfathering or transitional provisions in the Capital Regulations applicable to Tier 2 Notes (including the Notes).
 - **Relevant Authority** "Relevant Authority" means the Registrar of Banks or such other governmental authority in South Africa (if any) as will have the responsibility of making decisions relating to the declaration of a bank as being non-viable, with the effect (as contemplated in the Regulations Relating to Banks) of triggering loss absorption within the relevant Capital Instruments.
- (c) **Redemption in part:** Not Applicable
8. **Event of Default and Early Termination Amount** The Noteholders shall not be entitled to accelerate payments of interest and/or principal under the Notes except in the circumstances set out in Condition 12.2 (*Events of Default relating to Dated Subordinated Notes*) (as read with Item G(1) below and the conditions specified in Regulation 38(14)(a)(v) of the Tier 2 Capital Regulations).
- The Early Termination Amount is the aggregate outstanding Principal Amount of this Tranche (plus accrued interest, if any).
9. **Other terms applicable on redemption** Not Applicable
- E. OCCURRENCE OF A TRIGGER EVENT**
1. **Definitions:**
- For purposes of this Applicable Pricing Supplement (including, in particular, Item F below), the following terms shall, notwithstanding the definitions thereof (where applicable) in Condition 1.1 (*Definitions*), bear the following meanings:
- **Trigger Event** "Trigger Event" means the "trigger event" specified in writing by the Relevant Authority (as contemplated in Regulation 38(14)(a)(i) of the Tier II Capital Regulations); provided that, as a minimum, the aforesaid trigger event shall be the earlier of:
 - a) a decision that a write-off, without which the Issuer would become non-viable,

is necessary, as determined by the Relevant Authority; or

- b) the decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined by the Relevant Authority,

as contemplated in sub-paragraph (iii) of the Proviso to Regulation 38(14)(a)(i) of the Tier 2 Capital Regulations.

- Trigger Event Date

"Trigger Event Date" means the date on which the Issuer receives written notice from the Relevant Authority of the occurrence of the Trigger Event (which written notice may be transmitted by e-mail).

- Unpaid Amount

"Unpaid Amount" means, in relation to this Tranche, the aggregate Principal Amount of this Tranche and all accrued but unpaid interest in respect of this Tranche as at the Trigger Event Date and, in relation to any number of Notes means, the aggregate Principal Amount of such number of Notes and all accrued but unpaid interest in respect of such number of Notes as at the Trigger Event Date, each as determined by the Calculation Agent.

F. COMPULSORY WRITE-OFF OF THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT

1. Write-off

Upon the Trigger Event Date:

- a) the Unpaid Amount shall be written off without further action on the part of the Issuer, any Noteholder or any other person;
- b) the obligation that the Issuer would have had, in the absence of this Item G, to pay the Unpaid Amount to the Noteholders shall be extinguished in its entirety; and
- c) the Unpaid Amount shall be irrevocably lost.

Failure to pay the Unpaid Amount in consequence of the provisions of the preceding paragraph of this Item G(1) shall not constitute a default by the Issuer or any other breach of the Issuer's obligations under the Notes or the Applicable Terms and Conditions. Noteholders will cease to have any claims for the Unpaid Amount or any portion thereof, and the Issuer shall not (and shall not be obliged to) compensate the Noteholders in any manner for the Unpaid Amount or any portion thereof.

G. ADDITIONAL PROVISIONS

1. Ordinary Conditions

Save to the extent otherwise provided in this Applicable Pricing Supplement and/or the Tier 2 Capital Regulations (and subject to the following paragraph of this Item G(1) below), the Ordinary Conditions shall apply *mutatis mutandis* to this Tranche as if all references to "*Dated Tier 2 Notes*" in the Ordinary Conditions were to include Tier 2 Notes (including this Tranche).

To the extent that there is any conflict or inconsistency between the provisions of the Ordinary Conditions and the Tier 2 Capital Regulations, the Tier 2 Capital Regulations shall prevail.

Accordingly, and as an example, Condition 7 (*Deferral of Interest and Principal Payments on Certain Subordinated Notes*) shall not apply to Tier 2 Notes (including this Tranche).

2. Risk Factors and South African Taxation

The section of the Programme Memorandum headed "*Risk Factors*" ("**Risk Factors**") sets out certain investment considerations and risks. Annexure "A" to this Applicable Pricing Supplement headed "*Risk Factors and South African Taxation*" ("**Annexure "A"**") (i) supplements and updates certain of the Risk Factors insofar as such Risk Factors (and/or any additional risk factors) relate to the Basel III Accord and Tier 2 Notes and (ii) updates the section of the Programme Memorandum headed "*South African Taxation*" in respect of, among other things, the Basel III Accord and Tier 2 Notes.

Annexure "A" must be read in conjunction with the Programme Memorandum as at the Issue Date ("**Current Programme Memorandum**") and this Applicable Pricing Supplement. To the extent that there is any conflict or inconsistency between the provisions of Annexure "A" and the Current Programme Memorandum, the provisions of Annexure "A" shall prevail.

H. BANKS ACT PROVISIONS

1. Additional Conditions Not Applicable
 2. Proceeds of issue As at the Issue Date, the proceeds of the issue of this Tranche rank as Tier 2 Capital.
 3. Acquisition of Notes The Notes shall not be held or acquired by the Issuer or any person related to or associated with the Issuer or over which the Issuer exercises or may exercise control or significant influence, as contemplated in Regulation 14(a)(iv)(F) of the Tier 2 Capital Regulations and, unless otherwise defined in the Banks Act the phrase "*any person related to or associated with the Issuer or over which the Issuer exercises or may exercise control or significant influence*" (or any applicable portion of such phrase) shall be construed *mutatis mutandis* in accordance with sections 2 and 3 of the Companies Act, 2008.
- I. AGENTS AND SPECIFIED OFFICES**
1. Calculation Agent Nedbank Capital, a division of Nedbank Limited
 2. Specified Office of the Calculation Agent 135 Rivonia Road, Sandown, Sandton, 2196, South Africa
 3. Paying Agent Nedbank Limited
 4. Specified Office of the Paying Agent Braampark Forum IV, 2nd Floor, 33 Hoofd Street, Braamfontein, 2001, South Africa
 5. Transfer Agent Computershare Investor Services (Proprietary) Limited
 6. Specified Office of the Transfer Agent Ground Floor, 70 Marshall Street, Johannesburg, 2001, South Africa
- J. REGISTER CLOSED**
1. Last Day to Register Up until 17h00 (South African time) on the sixth day (whether such is a Business Day or not) preceding each Interest Payment Date and the Redemption Date being, in each instance, the last date on which the Transfer Agent will accept Transfer Forms and record in the Register the transfer of Notes represented by Individual Certificates.
 2. Books Closed Period The Register will be closed during the 5 days preceding each Interest Payment Date and the Redemption Date from 17h00 (South African time) on the Last Day to Register until 17h00 (South African time) on the day preceding the Interest Payment Date and the Redemption Date, being the period during which the Register is closed for purposes of giving effect to transfers, redemptions or payments in respect of this Tranche of Notes.
 3. Books Closed Date 20 October, 20 January, 20 April and 20 July of each year until the Redemption Date.
- K. GENERAL**
1. Additional selling restrictions See Item H(3) above
 2. International Securities Numbering (ISIN) ZAG000107418
 3. Stock Code Number NED13
 4. Financial Exchange JSE Limited (Interest Rate Market of the JSE)
 5. Method of Distribution Private Placement
 6. Bookbuild and Allocation Policy Not Applicable
 7. Pricing Methodology Not Applicable
 8. Name of Dealer Nedbank Capital, a division of Nedbank Limited
 9. Stabilisation Manager Not Applicable
 10. Governing law The Notes and the applicable Terms and Conditions are governed by, and shall be construed in accordance with, the laws of South Africa.
 11. Business Centre Johannesburg
 12. Additional Business Centre Not Applicable
 13. Other banking jurisdiction Not Applicable
 14. Rating (if any) assigned to this Not Applicable

Tranche of Notes as at the Issue Date

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| 15. | Credit rating of the Issuer as at the Issue Date | As at the Issue Date, the Issuer has a domestic long-term credit rating of (i) AA from Fitch Southern Africa (Proprietary) Limited and (ii) Aa2.za from Moody's Investor Services Limited. |
| 16. | Other provisions | Not Applicable |

The Issuer accepts full responsibility for the information contained in the Programme Memorandum (including Annexure "A" to this Applicable Pricing Supplement headed *"Risk Factors and South African Taxation"* ("Annexure "A")") and this Applicable Pricing Supplement.

The Issuer confirms that, to the best of its knowledge and belief, there are no facts the omission of which would make the Programme Memorandum (as read with Annexure "A") or any statement contained in the Programme Memorandum (as read with Annexure "A") false or misleading, that all reasonable enquiries to ascertain such facts have been made. The Issuer confirms that, to the best of its knowledge and belief, this Applicable Pricing Supplement (as read with the Programme Memorandum and Annexure "A") contains or incorporates by reference all information required by the *"Debt Listings Requirements"*, dated March 2011, published by the JSE, and all other Applicable Laws.

The JSE assumes no responsibility or liability of whatsoever nature for the correctness of any of the statements made or opinions expressed or information contained in or incorporated by reference into the Programme Memorandum and/or Annexure "A". The admission of this Tranche of Notes to the list of Debt Securities maintained by the JSE and the listing of this Tranche of Notes on the Interest Rate Market of the JSE is not to be taken as an indication of the merits of the Issuer or the Notes. The JSE assumes no responsibility or liability of whatsoever nature for the contents of the Programme Memorandum or Annexure "A" or this Applicable Pricing Supplement or any information incorporated by reference into the Programme Memorandum (as read with Annexure "A"), and the JSE makes no representation as to the accuracy or completeness of the Programme Memorandum or Annexure "A" or this Applicable Pricing Supplement, or any information incorporated by reference into the Programme Memorandum (as read with Annexure "A"). The JSE expressly disclaims any liability for any loss arising from or in reliance upon the whole or any part of the Programme Memorandum or Annexure "A" or this Applicable Pricing Supplement or any information incorporated by reference into the Programme Memorandum (as read with Annexure "A").

Application is hereby made to list Tranche 3 of Series 2 of the Notes on the Interest Rate Market of the JSE, as from 24 July 2013, pursuant to the Nedbank Limited ZAR40,000,000,000 Domestic Medium Term Note Programme.

For: **NEDBANK LIMITED**

By: 

duly authorised

Date: 22/7/13 July 2013

By: 

duly authorised

Date: 22/7/13 July 2013

ANNEXURE A: RISK FACTORS AND SOUTH AFRICAN TAXATION

Any capitalised terms not defined in this Annexure "A" shall (subject to Item G(1) of the Applicable Pricing Supplement) have the meanings ascribed to them in the Applicable Pricing Supplement.

This Annexure "A" must be read in conjunction with the Current Programme Memorandum and the Applicable Pricing Supplement. To the extent that there is any conflict or inconsistency between the provisions of this Annexure "A" and the Current Programme Memorandum, the provisions of this Annexure "A" shall prevail.

SUPPLEMENTED RISK FACTORS

Potential investors in Tier 2 Notes are referred to the Risk Factors) which set out certain investment considerations and risks. This section headed "Supplemented Risk Factors" (**"this Section"**) supplements and updates certain of the Risk Factors insofar as such Risk Factors (and/or any additional risk factors) relate to the Basel III Accord and Tier 2 Notes.

The Issuer believes that the factors outlined in this Section below may, in addition to the Risk Factors (as supplemented by this Section), affect its ability to fulfil its obligations under the Tier 2 Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. The value of the Tier 2 Notes could decline due to any of these risks, and investors may lose some or all of their investment.

The Issuer believes that the factors described in this Section below may, in addition to the Risk Factors (as supplemented by this Section), represent the principal risks inherent in investing in the Tier 2 Notes, but the inability of the Issuer to pay interest, principal or other amounts under any Tier 2 Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information available to it as at the Issue Date, or which it may not be able to anticipate. The Issuer does not represent that the statements in this Section below and the Risk Factors (as supplemented by this Section) regarding the risks of holding any Tier 2 Notes are exhaustive. The information set out in this Section below (and the Risk Factors, as supplemented by this Section) is not intended as advice and does not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Tier 2 Notes.

Prospective investors should also read the information set out elsewhere in the Current Programme Memorandum to reach their own views prior to making any investment decision.

Basel III Accord

General

Basel III provides, among other things, for 3 "tiers" of Regulatory Capital: (i) Common Equity Tier 1 Capital, (ii) Additional Tier 1 Capital and (iii) Tier 2 Capital.

Basel III will be (or has partially been – see "South African implementation of Basel III" below) adopted in the South African regulatory framework and will be (or has partially been – see "South African implementation of Basel III" below) implemented from 1 January 2013 with various phase-in and transitional arrangements until 31 December 2018.

The International BCBS Basel III quantitative impact studies ("**QIS**") enable selected banks to report figures to enable the Basel Committee on Banking Supervision ("**BCBS**") to assess the impact of Basel III. These QIS reports are submitted on a bi-annual basis. The Issuer has participated fully in the QIS process.

The main changes under Basel III are summarised as follows:

- Basel III provides for tighter definitions of what constitutes acceptable regulatory capital. Basel III places enhanced emphasis on the consistency and quality of capital and on curtailing, among other things, liquidity risk. From a capital perspective the most heavily impacted banks are likely to be those with relatively large capital market businesses, particularly trading activities, complex securitisations, over-the-counter derivatives (counterparty credit risk) and securities lending.
- Basel III allocates a higher regulatory capital value to shareholders' equity than to subordinated loss-absorbing debt, preference shares and hybrid capital. For example, it is expected that Tier 2 Capital will be allowed to constitute less than the current 33% of a bank's overall capital
- Basel III has introduced two new buffers: a capital conservation buffer of 2.5% (if a bank enters the range of this buffer, it is subject to dividend and bonus restrictions) and a countercyclical buffer that ranges between 0% and 2.5%, depending on whether the rate of credit extension exceeds the growth of the real economy. These buffers are due to be phased in from 2016, but market expectations could lead to earlier compliance.
- Basel III provides for a new maximum leverage ratio.
- Basel III has introduced two new minimum liquidity standards – the liquidity coverage ratio ("LCR") and the net stable funding ratio ("**NSFR**"). From a liquidity perspective, many banks, domestic and foreign, now meet the LCR requirements following the BCBS announcement on the 06 January 2013. However, based on industry estimates, compliance with the NSFR remains structurally challenging and consequently the Issuer will continue to work closely with the SARB, peer groups and National Treasury in terms of addressing the structural challenges while being mindful of the fact that the Basel Committee is likely to consider fundamental changes to the NSFR well ahead of its targeted implementation date of January 2018. Having finalised the LCR, the Basel Committee has formally announced that it will, as a matter of priority, now focus on the NSFR over the next two years.

- Basel III also provides for enhanced capital requirements for derivatives, repurchase and securities financing transactions.

In May 2012 the South African Reserve Bank ("SARB") issued Guidance Note 05/2012 stating that it would allow banks to include cash reserves in the calculation of the LCR and that it will provide a Committed Liquidity Facility ("CLF") for an amount up to 40% of the LCR requirements. Taking into account Nedbank Group's cash reserves, the liquid assets held for regulatory purposes, the surplus liquidity buffer and the Issuer's anticipated use of the CLF, on a pro forma basis the Issuer is compliant already with the 2015 Basel III LCR requirement.

Meeting the LCR requirement was further assisted by the announced amendments to the LCR by the BCBS on 6 January 2013. The amendments are positive in that they provide banks with a longer lead time to implement the LCR and have resulted in a broader definition of qualifying high quality liquid assets that can be held in the bank's liquidity buffers. Lastly, these amendments have resulted in reduced liquidity buffer requirements given refinements to various cash outflow assumptions in the LCR formula.

Basel III is a minimum global standard and, accordingly, the relevant authority is not prevented from setting higher standards, as was done in South Africa with the implementation of Basel II.

The main impact of Basel III on South African banks is likely to be on the levels and composition of capital, the levels of highly marketable securities, liquidity risk and funding profiles and, accordingly, on the general cost of bank funding as banks look to optimally structure their Capital base and reform their funding models to meet the requirements of the new liquidity ratios.

Loss Absorption at the Point of Non-Viability of the Issuer

Basel III requires the implementation of certain loss absorbent criteria under certain non-viability circumstances, as set out in the Basel III Accord ("**Loss Absorption PONV Requirements**").

Under the Loss Absorption PONV Requirements, the terms and conditions of all instruments and/or shares, the proceeds of the issue of which instruments and/or shares rank (or are intended to rank) as Tier 2 Capital or Additional Tier 1 Capital (together, "**Convertible Capital Instruments**") must have a provision that requires such Convertible Capital Instruments, at the option of the Relevant Authority, to either be "written off" or "converted" into "common equity" (that is, ordinary shares) upon the occurrence of the relevant "trigger event" unless, among other things, duly enforceable legislation is in place:

- that requires the Convertible Capital Instruments to be written off upon the occurrence of the relevant "trigger event"; or
- that otherwise requires the Convertible Capital Instruments to fully absorb loss before taxpayers or ordinary depositors are exposed to loss.

As a minimum, the relevant "trigger event" must be the earlier of:

- a decision that a write off, without which the issuing bank would become non-viable, is necessary, as determined by the Relevant Authority; and
- the decision to make a public sector injection of capital, or equivalent support, without which the issuing bank would have become non-viable, as determined by the Relevant Authority.

On the basis of the implementation of the Loss Absorption PONV Requirements, Tier 2 Notes will be subject to write down or conversion into ordinary shares upon the occurrence of the relevant "trigger event", which may result in Noteholders of Tier 2 Notes losing some or all of their investment. The occurrence of the relevant "trigger event" or any suggestion of any such occurrence could materially adversely affect the market price of Tier 2 Notes.

South African implementation of Basel III

Regulations Relating to Banks

The Regulations Relating to Banks came into operation on 1 January 2013 and provide, among other things, for the implementation of the Basel III Accord (or the applicable provisions thereof) in South Africa and the requirements with which specified categories of Capital Instruments must comply in order for the proceeds of the issue thereof to qualify for inclusion in the Regulatory Capital of banks.

Banks Amendment Bill [B43 – 2012]

Although the Regulations Relating to Banks have been promulgated and came into operation on 1 January 2013 (see "*Regulations Relating to Banks*" above), the required amendments to the Current Banks Act to provide, among other things, for the implementation of the Basel III Accord (or the applicable provisions thereof) in South Africa, have not yet been promulgated.

These required amendments to the Current Banks Act are expected to be substantially in accordance with the Bill.

Relevant Authority

The Relevant Authority for purposes of Basel III in South Africa will be the Registrar of Banks or such other governmental authority in South Africa (if any) as will have the responsibility of making decisions relating to the declaration of a bank as being non-viable, with the effect of triggering loss absorption within the relevant Convertible Capital Instruments.

Uncertainties

Basel III, the Regulations Relating to Banks and the fact that the Current Banks Act has not yet been amended to provide for the implementation of the Basel III Accord in South Africa, have introduced a number of uncertainties. Some of these uncertainties are summarised below:

The Bill (but not the Regulations Relating to Banks or the Current Banks Act) contains certain key definitions of, among other things, "*common tier 1 capital*", "*additional tier 1 capital*" and "*tier 2 capital*". The date on which the Current Banks Act, as amended substantially in accordance with the Bill, will be promulgated and come into force is not certain.

There is also uncertainty regarding the nature of the "trigger event" provided for in Regulations 38(13)(b) and 38(14) of the Regulations Relating to Banks and the criteria that will be taken into account by the Relevant Authority in determining the "trigger event". Regulations 38(13)(b)(i) and 38(14)(a)(ii) of the Regulations Relating to Banks refer to "*the occurrence of the trigger event specified in writing by the [Relevant Authority]*". It would appear (although this is not certain) that this "trigger event" must "*as a minimum*" be the earlier of (i) a decision that a write off, without which the issuing bank would become non-viable, is necessary, as determined by the Relevant Authority and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the issuing bank would have become non-viable, as determined by the Relevant Authority.

In addition, there is uncertainty as to how the determination that a "trigger event" has occurred will be communicated by the Relevant Authority to the Issuer and the relevant Noteholders.

Because the Regulations Relating to Banks provide that the write-off/conversion into equity must occur "*upon the occurrence of the trigger event specified in writing by the [Relevant Authority]*", there is uncertainty regarding the timing of the occurrence of the trigger event. Currently, neither the Issuer nor the relevant Noteholders will know when, in fact, the "trigger event" will have occurred.

Some of the uncertainties referred to above have been clarified or partially clarified in Guidance Note 3/2013 headed "*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*", dated 11 June 2013, issued by the Relevant Authority in terms of section 6(5) of the Banks Act.

"Grandfathering" of capital instruments issued before 1 January 2013

The Loss Absorption PONV Requirements implemented (or to be implemented) in South Africa do not (or will not) apply retrospectively and, accordingly, some or all of the capital instruments issued by the Issuer before 1 January 2013 will be "grandfathered", that is, phased out over a ten-year period from 1 January 2013.

The ability of the Issuer to replace these capital instruments with capital instruments which comply with Basel III and, where applicable, the Loss Absorption PONV Requirements, over the ten year period is uncertain, and will depend on the extent to which the uncertainties regarding the Regulations and Banks Act have been resolved and the final text of the amended Banks Act (once amended to provide for the implementation of the Basel III Accord in South Africa), to enable the issue of such capital instruments in significant volumes, the appetite of the capital markets for capital instruments and the ability to issue such capital instruments at a price mutually acceptable to the Issuer and investors. Bearing in mind the uncertainties referred to above, it is difficult for the Issuer to predict the precise effects of the changes that may result from the full implementation of Basel III in South Africa and/or what regulatory changes may be imposed in the future, or estimate, with accuracy, the impact that the full implementation of Basel III in South Africa and/or related regulatory changes that may be imposed in the future may have on the Issuer's business, the products and services it offers and the values of its assets. If, for example, the Issuer were required to make additional provisions, increase its reserves or capital, or exit or change certain businesses, as a result of the full implementation of Basel III in South Africa and/or related regulatory changes that may be imposed in the future, this could have an adverse effect on the Issuer's business, financial condition and results of operations.

Notwithstanding the above, the Issuer has implemented numerous initiatives in preparation for the full implementation of Basel III in South Africa, and has internally assessed and provided, to the best of its ability, for the anticipated budgetary impacts of the full implementation of Basel III in South Africa.

Capital adequacy requirements

The Issuer is subject to the capital adequacy requirements set out in the Banks Act (see "*Banks Amendment Bill [B43 – 2012]*" above), as read with the Regulations Relating to Banks, which provide for a minimum target ratio of capital to risk-adjusted assets, which could limit its operations.

The Issuer must, in terms of the Banks Act (see "*Banks Amendment Bill [B43 – 2012]*" above), as read with the Regulations Relating to Banks and Directive 5 (see "*Directive 5*" below), maintain a minimum level of capital based on risk-adjusted assets and off-balance-sheet exposures.

Any failure by the Issuer to maintain its capital adequacy ratios may result in sanctions against the Issuer which may in turn impact on its ability to fulfil its obligations under the Tier 2 Notes.

Directive 5

Directive 5 of 2013, dated 26 April 2013, has been issued by the Relevant Authority in terms of section 6(6) of the Banks Act ("*Directive 5*"). A summary of certain of the provisions of Directive 5 is set out below:

Directive 5 informs banks of matters related to the prescribed minimum required capital ratios and the application of various components of the minimum required capital ratios such as the systemic risk capital requirement (Pillar 2A), the domestic systemically important bank (D-SIB) capital requirement, the countercyclical buffer range and the capital conservation buffer range. Directive 5 also details the phase-in requirements for the prescribed minimum required capital ratios.

Annexure A of Directive 5 stipulates the various capital tiers, together with various related elements specified in the Regulations Relating to Banks and in the Basel III Accord, including the systemic risk capital requirement (Pillar 2A), the bank-specific individual capital requirement (ICR, also known as Pillar 2B), and the phasing in of the related minimum requirements. The phase-in arrangements for the minimum requirements are set out in Annexure B of Directive 5.

Regulation 38(8)(e)(ii) of the Regulations Relating to Banks prescribes that the capital requirement for systemic risk (that is Pillar 2A) will be specified by the Relevant Authority. The Pillar 2A requirement may therefore also be revised from time to time.

The Pillar 2A capital requirement will be set at 1.5% of risk-weighted exposures for all banks at a total capital level with effect from 1 January 2013, after which it will be increased to 2.0%. In order to ensure that factors related to systemic risk are not double counted, the Pillar 2A capital requirement will be adjusted during the phase-in period of the higher loss absorbency (HLA) requirement for D-SIBs, which will come into effect from 1 January 2016, resulting in an appropriate reduction in some components of the Pillar 2A requirement over time.

Banks are notified that the combined total capital-adequacy requirement in respect of the Pillar 2A and the HLA requirement for D-SIBs will not exceed 3.5% of a bank's risk-weighted exposure.

Banks should maintain an additional discretionary capital buffer above the specified minimum requirements, as envisaged in Regulation 38(8)(e)(vii) of the Regulations Relating to Banks, to ensure that the execution of internal business objectives or the occurrence of adverse external environmental factors do not prevent banks from operating above the relevant minima. The Relevant Authority will continue to monitor and assess the adequacy of this internal buffer against a bank's strategy, risk profile and levels of capital.

Banks are advised to take note of the fact that guidance will be provided on specific aspects of the new capital framework, should it become necessary, after the BCSB has finalised the consultative processes which are currently still under way.

Annexures A and B of Directive 5 provide, among other things, for the capital adequacy ratios for 2013:

- CET 1 Capital Requirement: Minimum CET1 Ratio (per Basel III) = 3.5% + Pillar 2A for CET1 = 1.0%. Minimum CET1 plus Pillar 2A = 4.5%.
- Tier 1 Capital Requirement: Minimum Tier 1 Ratio (per Basel III) = 4.5% + Pillar 2A for T1 = 1.5%. Minimum T1 plus Pillar 2A = 6.0%.
- Total Capital Requirement: Minimum Total Capital Ratio (per Basel III) = 8.0% + Pillar 2A for Total Capital = 1.5%. Minimum Total Capital plus Pillar 2A = 9.5%.

These minimum 2013 capital requirements exclude any bank-specific individual capital requirement (ICR, also known as Pillar 2B) for 2013.

The required minimum capital requirements will be phased in over a number of years and, as such, will change annually based on Directive 5 (or any other relevant guidance note to be issued in the future by the Relevant Authority).

Winding-up, liquidation, curatorship and limited rights of acceleration

If the Issuer is wound-up or placed under liquidation or curatorship, whether voluntarily or involuntarily, holders of Tier 2 Notes will not be entitled to any payments in respect of the Tier 2 Notes until the claims of Depositors and Senior Creditors which are admissible in any such winding-up, liquidation or curatorship have been paid or discharged in full. If the Issuer does not have sufficient assets at the time of winding-up, liquidation or curatorship to satisfy those claims, holders of Tier 2 Notes will not receive any payment on the Tier 2 Notes.

No limitation on issuing securities

There is no restriction on the amount of securities or indebtedness which the Issuer may issue or incur which rank senior to or *pari passu* with the Tier 2 Notes in the event the Issuer is wound-up or placed under liquidation or curatorship. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Tier 2 Notes in the event the Issuer is wound-up or placed under liquidation or curatorship.

Limited rights of acceleration

The rights of the holders of Tier 2 Notes are limited in other respects. In particular, as set out in Condition 12.2 (*Events of Default relating to Dated Subordinated Notes*) (as read with Item G(1) of the Applicable Pricing Supplement), if the Issuer fails to pay any principal or interest due on the Tier 2 Notes for a period of 5 days or more after the date on which such principal is due or 10 days or more after the date on which such interest is due (as the case may be), any holder of Tier 2 Notes may institute proceedings for the winding-up of the Issuer and/or prove in any winding-up of the Issuer, but take no other action in respect of that default. The holder of Tier 2 Notes may only accelerate payments of principal and/or interest on the Tier 2 Notes if an order is made or an effective resolution is passed for the liquidation of the Issuer.

SOUTH AFRICAN TAXATION

The comments in this section headed "South African Taxation" below are intended as a general guide to the relevant tax laws of South Africa as at the Issue Date. The contents of this section headed "South African Taxation" do not constitute tax advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of Tier 2 Notes. Prospective subscribers for or purchasers of Tier 2 Notes should consult their professional advisers in this regard.

Securities Transfer Tax

The issue, transfer and redemption of Tier 2 Notes will not attract securities transfer tax under the Securities Transfer Tax Act, 2007. Any future transfer duties and/or taxes that may be introduced in respect of (or be applicable to) the transfer and/or redemption of Tier 2 Notes will be for the account of the Noteholders.

Income tax

Original issue discount or premium

Any original issue at a discount to the Principal Amount of the Tier 2 Notes will be treated as interest for tax purposes, and the discount income will be deemed to accrue to the Noteholder on a yield to maturity basis as if such Noteholder were to hold the Tier 2 Notes until maturity. Any original issue premium over the Principal Amount of the Notes will also be treated as interest for tax purposes and will be taken into account in calculating the return to the Noteholder on a yield to maturity basis as if such Noteholder were to hold the Tier 2 Notes until maturity.

Position as at the Issue Date

A "resident" (as defined in section 1 of the Income Tax Act) ("**Resident**") will, subject to any available exemptions, be taxed on its worldwide income. Accordingly, a Resident Noteholder will be liable for tax, subject to available exemptions, on any income, including interest received or accrued in respect of the Tier 2 Notes held by that Resident Noteholder in the relevant year of assessment of that Resident Noteholder.

A person who or which is not a Resident ("**Non-Resident**") is currently taxed in South Africa under the Income Tax Act only on income from a source within or deemed to be within South Africa. Interest which, during the relevant year of assessment of a Non-Resident Noteholder, is received or accrued in respect of Tier 2 Notes which are held by that Non-Resident Noteholder will be exempt from income tax under section 10(1)(h) of the Income Tax Act, unless that Non-Resident Noteholder:

- a) is a natural person who was physically present in South Africa for a period exceeding 183 calendar days in aggregate during the relevant year of assessment; or
- b) at any time during the relevant year of assessment carried on business through a permanent establishment of that Non-Resident Noteholder in South Africa.

If a Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, an exemption from or reduction of any South African tax liability may be available under an applicable double taxation agreement. Furthermore, certain entities may be exempt from income tax. Purchasers are advised to consult their own professional advisers as to whether the interest income earned on the Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation agreement. Non-resident Noteholders must also note the liability to the new withholding tax on "interest" paid to Non-Resident Noteholders (see "Withholding tax" below).

Proposed amendments

The National Treasury of South Africa ("**National Treasury**") indicated as part of the tax proposals that were made during the Budget Speech of the Honourable Minister of Finance on 27 February 2013, that certain amendments will be proposed to the income tax legislation during 2013. In particular, it is indicated that some debt instruments will be recharacterised as shares if they contain certain features. The main concerns relate to so-called debt instruments that do not have a realistic possibility of being repaid within 30 years, or constitutes debt that is convertible into shares at the request of the issuer. It was specifically indicated that banks and insurers will be excluded from this recharacterisation.

The proposals that were made by National Treasury follow from certain recommendations that were made during 2012 in terms of which anti-hybrid debt recharacterisation rules were considered. Draft legislation was made available for comment on the basis that one of the tests was whether the repayment of a portion of the debt instrument would be subject to the solvency or liquidity of the issuer of the debt instrument. Any recharacterisation will result in the debt instrument being treated as shares and income in respect of the debt instrument being reclassified as dividends. The issuer of the debt instrument will in such instance be denied a tax deduction of the "interest" so payable. Any amount of interest so reclassified may also be subject to dividends tax as envisaged in the Income Tax Act. It was indicated by National Treasury that Tier I and Tier II capital will be exempted from these recharacterisation rules even though the relevant instruments issued by amongst others banks may fall within the scope of these proposals. It is expected that similar wording will be reintroduced during the 2013 legislative process. It is not possible to state with any certainty what the final wording of the legislation will be and how it may impact upon a Holder of the Tier 2 Notes.

Disposal of the Tier 2 Notes

Tax (whether income tax or capital gains tax) will be levied on the disposal or deemed disposal of any Tier 2 Notes that are held by a Noteholder. Income tax will be applicable to the extent that the Noteholder is a trader or acquired the Notes for speculative purposes. Capital gains tax will be payable to the extent that the Tier 2 Notes have been acquired by the Noteholder for investment purposes and the disposal is not regarded as part of a profit-making transaction. Any discount or premium on acquisition which has already been treated as interest for income tax purposes under section 24J of the Income Tax Act will not be taken into account when determining any capital gain or loss.

Tax will not be applicable on the disposal of Tier 2 Notes by a Non-Resident Noteholder unless the Tier 2 Notes comprise assets which are attributable to a permanent establishment of the Non-Resident Noteholder in South Africa during the relevant year of

assessment of the Non-Resident Noteholder. Tax will only be applicable to the extent that the source of the profits is in South Africa and the provisions of a Double Taxation Convention ("**Treaty**") do not exempt such gain or profit.

Withholding tax

The taxation of interest is regulated by section 24J of the Income Tax Act. For tax purposes "*interest*" (as defined in section 24J of the Income Tax Act) ("**Interest**") has a wide meaning and includes, among other things, not just interest and related finance charges, but also any discount or premium payable or receivable in terms of or in respect of a financial arrangement (see "*Original issue discount or premium*" above).

Position as at the Issue Date

As at the Issue Date, all payments of Interest and principal made under the Tier 2 Notes to Noteholders will, in terms of the Income Tax Act as at the Issue Date, be made free of withholding or deduction for or on account of any Taxes. However, as indicated above, the receipt of Interest will be taxable in the hands of Resident Noteholders.

Proposed new withholding tax

It was announced in the fiscal Budget presented by the Minister of Finance on 27 February 2013 that a withholding tax on Interest paid to Non-Residents will be levied at a rate of 15% with effect from 1 March 2014. Subject to any withholding tax relief provided for in an applicable Treaty, and subject to certain exemptions (see below), the withholding tax will be imposed in respect of all payments of Interest under the Tier 2 Notes to Non-Resident Noteholders.

However, payments of Interest under Tier 2 Notes held by Non-Resident Noteholders will be exempt from withholding tax if (among other exemptions) such Tier 2 Notes are listed on a "*recognised exchange*" or are issued by South African banks. The issuer is a South African bank. The JSE is a "*recognised exchange*".

Accordingly, payments of Interest under Tier 2 Notes held by non-Resident Noteholders are likely to be exempt from the withholding tax.

Compulsory Write-down of Tier 2 Notes

To the extent that the Tier 2 Notes are written down on the basis of the Issuer no longer being obliged to pay the relevant amount to the Noteholders, this will be a realisation which may have tax consequences. In other words, if a debt is waived or reduced as envisaged in the Income Tax Act, this may result in a loss for the Noteholders. To the extent that there is merely an accounting entry as opposed to a waiver or reduction in law, this will not constitute a disposal of the Tier 2 Notes. Should there be an actual waiver or reduction of the amount under the Tier 2 Notes, both the Issuer and the Tier 2 Noteholders may have to account for tax consequences, depending on, among other things, whether the Tier 2 Notes have been held on capital or revenue account.

Value-added tax consequences

No value-added tax ("**VAT**") is payable on the issue or transfer of the Tier 2 Notes. The Tier 2 Notes constitute "debt securities" as defined in the Value-Added Tax Act, No 89 of 1991 ("**VAT Act**"). The issue, allotment or transfer of ownership of a debt security constitutes a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act. However, it should be appreciated that commissions or other charges that are payable on the facilitation of these services are subject to VAT at the standard rate (currently being 14%). To the extent that the recipient is a Non-Resident, the commissions or charges may be subject to VAT at a zero rate, depending on the circumstances and the identity of the service provider.