



**AFRICAN BANK LIMITED**

(Registration number 1975/002526/06)  
(incorporated with limited liability in the Republic of South Africa)

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**ZAR25,000,000,000**

**Domestic Medium-term Note Programme Supplement**

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On 10 September 2001, African Bank Limited (the “**Issuer**”) established a ZAR3,500,000,000 Domestic Medium Term Note Programme (the “**Programme**”) pursuant to a programme memorandum dated 10 September 2001, as supplemented by the Supplements to the Programme Memorandum dated 11 September 2003, 9 July 2004, 18 August 2005, 7 August 2006, 14 June 2007, 14 February 2008, 17 February 2009, 11 March 2010 and 27 September 2010 and as amended and restated on 19 May 2011, 1 June 2012 and 31 May 2013 (the “**Previous Programme Memoranda**”). This Programme Memorandum (this “**Programme Memorandum**”) will apply to all Notes (as defined below) issued under the Programme after 30 May 2014 (the “**Programme Date**”) and will, in respect of such Notes, supersede and replace the Previous Programme Memoranda in their entirety. This Programme Memorandum will not apply to any Notes issued under the Programme before the Programme Date, and the Previous Programme Memoranda will continue to apply to such Notes.

Under this Programme Memorandum, the Issuer may from time to time issue notes (the “**Notes**”), which expression shall include (i) Senior Notes, and/or (ii) Subordinated Notes, and/or (iii) Notes which are Subordinated Notes and with terms capable of qualifying the proceeds of such Notes as Tier 2 Capital (“**Tier 2 Notes**”), each as defined under the section headed “*Terms and Conditions of the Notes*” in this Programme Memorandum (“**the Terms and Conditions**”) denominated in the Specified Currency and further subject to all applicable laws and, in the case of Notes listed on the Interest Rate Market and/or the Main Board of the JSE (as defined herein) or such other Financial Exchange(s) (as defined herein) as may be determined by the Issuer, the JSE Listings Requirements or the listing requirements such other Financial Exchange(s). Details of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the Issue Price of Notes and any other terms and conditions not contained in the Terms and Conditions that are applicable to any Notes or that replace or modify the Terms and Conditions, will be set forth in a pricing supplement (the “**Applicable Pricing Supplement**”).

Capitalised terms used in this Programme Memorandum are defined in the section of this Programme Memorandum headed “*Terms and Conditions of the Notes*”, unless separately defined, and/or in relation to a Tranche of Notes, in the Applicable Pricing Supplement.

As at the Programme Date, the Programme Amount is ZAR25,000,000,000. This Programme Amount will apply to the Notes issued under the Programme (including Notes issued under the Programme pursuant to the Previous Programme Memoranda) in an aggregate outstanding Nominal Amount which will not exceed ZAR25,000,000,000 unless such amount is increased by the Issuer as set out in the section of this Programme Memorandum headed “*General Description of the Programme*”.

This Programme Memorandum has been approved by and registered with the JSE on 30 May 2014. A Tranche of Notes may be listed on the Interest Rate Market or the Main Board of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer, subject to all applicable laws. If a listing of a Tranche of Notes is sought on the Main Board of the JSE, the Issuer will be required, *inter alia*, to comply with the applicable requirements of Schedule 24 of the JSE Listings Requirements. Unlisted Notes may also be issued under the Programme. Unlisted Notes are not regulated by the JSE. The holders of Notes that are not listed on the Interest Rate Market or the Main Board of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of Notes listed on the Interest Rate Market or the Main Board of the JSE and can in no way relate to a default by the Issuer of its obligations under the Notes. Any claims against the BESA Guarantee Fund Trust may only be made in accordance with the rules of the BESA Guarantee Fund Trust.

A copy of the Applicable Pricing Supplement relating to a Tranche of Notes which is to be listed on the Interest Rate Market or the Main Board of the JSE will be delivered to the JSE and the CSD, before the Issue Date, and the Notes in that Tranche may be traded by or through members of the JSE from the date specified in the Applicable Pricing Supplement, in accordance with the Applicable Procedures. The settlement of trades on the JSE will take place in accordance with the electronic settlement procedures of the JSE and the CSD. The placement of a Tranche of unlisted Notes may (at the sole discretion of the Issuer) be reported through the JSE reporting system, in which event the settlement of trades in such Notes will take place in accordance with the electronic settlement procedures of the JSE and the CSD for all trades done through the JSE. The settlement and redemption procedures for a Tranche of Notes listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.

The Notes may be issued on a continuing basis and be placed by one or more of the Dealers specified under the section headed “*Summary of the Programme*” and any additional Dealers appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis (each a “**Dealer**” and together “**the Dealers**”). References in this Programme Memorandum to the “**Relevant Dealer(s)**” shall, in the case of Notes being (or intended to be) placed by more than one Dealer, be to all Dealers agreeing to place such Notes.

As at the Programme Date, the Programme has not been rated by any Rating Agency although the Issuer has been rated. However the Issuer may, at any time, obtain a rating by a Rating Agency for this Programme or any issue of Notes pursuant to this Programme. In this regard a Tranche of Notes may, on or before the Issue Date, be rated by a Rating Agency on a national scale or international scale basis. Unrated Tranches of Notes may also be issued. The Applicable Pricing Supplement will reflect the rating, if any, which has been assigned to the Issuer and/or the Programme and/or a Tranche of Notes, as the case may be, as well as the Rating Agency or Rating Agencies which assigned such rating(s).

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*Arranger and Debt Sponsor*

**Rand Merchant Bank, a division of FirstRand Bank Limited**  
*Dealers*

**Rand Merchant Bank, a division of FirstRand Bank Limited**  
**Absa Capital, a division of Absa Bank Limited**  
**Deutsche Bank AG, Johannesburg Branch**  
**Nedbank Capital, a division of Nedbank Limited**  
**The Standard Bank of South Africa Limited**

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## GENERAL

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*Words used in this section headed "General" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

The Issuer accepts full responsibility for the information contained in this Programme Memorandum. To the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case) the information contained in this Programme Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer certifies that, to the best of its knowledge and belief, there are no facts that have been omitted which would make any statements in this Programme Memorandum false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this Programme Memorandum contains all information required by law and the JSE Listings Requirements.

This document is to be read and construed with any amendment or supplement thereto (this document, as amended or supplemented, the "**Programme Memorandum**") and in conjunction with any other documents which are deemed to be incorporated herein by reference (see the section headed "*Documents Incorporated by Reference*") and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the Applicable Pricing Supplement. This Programme Memorandum shall be read and construed on the basis that such documents are incorporated into and form part of this Programme Memorandum.

The JSE:

- takes no responsibility for the contents of this Programme Memorandum, any applicable pricing supplements, or any annual report (as amended or restated from time to time) or the amendments to the annual report,
- makes no representation as to the accuracy or completeness of any of the foregoing documents; and
- expressly disclaims any liability for any loss arising from or in reliance upon the whole or any part of this Programme Memorandum, any applicable pricing supplements, or the annual report (as amended or restated from time to time) or the amendments to the annual report.

The Issuer shall accept full responsibility for the accuracy of the information contained in this Programme Memorandum, any applicable pricing supplements, and the annual report or the amendments to the annual report, except as otherwise stated therein.

The Arrangers and the Dealers or any of their respective subsidiaries or holding companies or a subsidiary of their holding company (their "**Affiliates**"), the Debt Sponsor, other professional advisers or the JSE have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers or the JSE as to the accuracy or completeness of the information contained in this Programme Memorandum or any other information provided by the Issuer. The Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers or the JSE do not accept any liability in relation to the information contained in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme or any other documents which are deemed to be incorporated herein by reference. (See the section headed "*Documents Incorporated by Reference*".)

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Programme Memorandum or any other document entered into in relation to the Programme or any other information supplied by the Issuer in connection with the Programme and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers or the JSE.

Neither this Programme Memorandum nor any other information supplied in connection with the Programme is intended to provide a basis for any credit or other evaluation, or should be considered as a recommendation by the Issuer, the Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other

professional advisers or the JSE that any recipient of this Programme Memorandum or any other information supplied in connection with the Programme should subscribe for, or purchase, any Notes.

Each person contemplating the subscription for, or purchase of, any Notes should determine for itself the relevance of the information contained in this Programme Memorandum and should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and its subscription for, or purchase of, Notes should be based upon any such investigation as it deems necessary. Neither this Programme Memorandum nor any Applicable Pricing Supplement nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers or the JSE to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Programme Memorandum nor any Applicable Pricing Supplement nor the offering, sale or delivery of any Note shall at any time imply that the information contained herein is correct at any time subsequent to the date hereof or that any other financial statements or other information supplied in connection with the Programme is correct at any time subsequent to the date indicated in the document containing the same. The Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers or the JSE expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, *inter alia*, the most recent financial statements, if any, of the Issuer, when deciding whether or not to subscribe for, or purchase, any Notes.

**Neither this Programme Memorandum nor any Applicable Pricing Supplement constitutes an offer to sell or the solicitation of an offer to buy or an invitation to subscribe for or purchase any Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or invitation in such jurisdiction. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Programme Memorandum or any Applicable Pricing Supplement and other offering materially relating to the Notes, see the section headed “*Subscription and Sale*”.**

**The distribution of this Programme Memorandum and any Applicable Pricing Supplement and the issue, sale or offer of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers nor the JSE represents that this Programme Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers and the Dealers or their Affiliates, the Debt Sponsor, other professional advisers or the JSE which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Programme Memorandum nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. The Dealers have represented that all offers and sales by them will be made on the same terms.**

**Persons into whose possession this Programme Memorandum or any Applicable Pricing Supplement or any Notes come are required by the Issuer, the Arrangers and the Dealers and their respective Affiliates, the Debt Sponsor, other professional advisers and the JSE to inform themselves about, and observe any such restrictions.**

**The Notes have not been and will not be registered under the United States Securities Act, 1933 (as amended) (the “Securities Act”). Notes may not be offered, sold or delivered within the United States or to U.S. persons except in accordance with Regulation S (as defined in the Securities Act) under the Securities Act.**

**In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer, if any, that is specified in the Applicable Pricing Supplement as the Stabilising Manager (or any person acting for the Stabilising Manager) may, if specified in that Applicable Pricing Supplement and only if such stabilising is permitted by the JSE listings requirements and in accordance with the Financial Markets Act and approved by the JSE, over-allot or effect transactions with a view to supporting and maintaining the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.**

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## DOCUMENTS INCORPORATED BY REFERENCE

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*Words used in this section headed "Documents Incorporated by Reference" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

The following documents are deemed to be incorporated by reference into, and form part of, this Programme Memorandum:

- (a) all amendments, restatements and/or supplements to this Programme Memorandum circulated by the Issuer from time to time;
- (b) each Pricing Supplement relating to any Notes and listed on the Interest Rate Market or the Main Board of the JSE;
- (c) in respect of any issue of Notes, the audited annual financial statements and notes and reports thereto, of the Issuer for the three financial years (ending on 30 September) prior to such issue and in respect of all financial years thereafter, as and when such audited financial statement become available;
- (d) the most recently published unaudited financial statements of the Issuer, as at and for the six months ended on 31 March;
- (e) in respect of any issue of Notes, the most recently published consolidated audited annual financial statements and notes and reports thereto, of African Bank Investments Limited ("**ABIL**"), the holding company of the Issuer, to be read with the financial statements of the Issuer relating to the same period, referred to above;
- (f) all information pertaining to the Issuer and/or ABIL which is relevant to the Programme and/or the Programme Memorandum and which is (i) electronically submitted by SENS to SENS subscribers; and/or (ii) available on any electronic new service established or used or required by the Interest Rate Market and/or the Main Board of the JSE.

The Issuer will provide, at its registered office as set out at the end of this Programme Memorandum, without charge, a copy of any or all of the documents which are incorporated herein by reference, unless such documents have been modified or superseded, in which case the modified or superseding documentation will be provided.

This Programme Memorandum and the documents referred to in paragraphs (a) and (b) above will be made available to the JSE in electronic form for the JSE to place on its website ([www.jse.co.za](http://www.jse.co.za)). Should any person have difficulty in attaining the documents incorporated by reference, they may contact the JSE for assistance.

Requests to the Issuer for such documents should be directed to the Issuer at its registered office. Copies of this Programme Memorandum and of the documents referred to in paragraphs (a) and (b) and the financial statements referred to in paragraphs (c), (d) and (e) above may also be found on the Issuer's website ([www.abil.co.za](http://www.abil.co.za)).

Any statement contained in this Programme Memorandum and/or in any document which is incorporated by reference into this Programme Memorandum will be deemed to be modified or superseded for the purposes of this Programme Memorandum to the extent that a statement contained in any subsequent document which is deemed to be incorporated by reference into this Programme Memorandum modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). No document which is incorporated by reference into this Programme Memorandum shall become a provision of the Terms and Conditions by virtue of the incorporation of such document by reference.

The Issuer will, for so long as any Note remains outstanding and listed on the Interest Rate Market or the Main Board of the JSE, update the Programme Memorandum, within six months of the financial year end of the Issuer, in the event of any of the information contained therein being outdated in a material respect. The amendments shall be subject to the approval of the JSE. No update or new Programme Memorandum or supplement to this Programme Memorandum, as the case may be, is required in respect of the Issuer's annual

financial statements if such annual financial statements are incorporated by reference into this Programme Memorandum and such annual financial statements are published, as required by the Companies Act, and submitted to the JSE within six months after the financial year end of the Issuer.

Any update or new Programme Memorandum or Programme Memorandum as supplemented, as the case may be, will be deemed to have substituted any previous programme memoranda from the date of issue of the new Programme Memorandum or Programme Memorandum as supplemented, as the case may be.

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## GENERAL DESCRIPTION OF THE PROGRAMME

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Words used in this section headed “General Description of the Programme” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.

The Issuer may from time to time issue one or more Tranches of Notes under the Programme, pursuant to this Programme Memorandum, provided that the aggregate outstanding Nominal Amount of all of the Notes issued under the Programme (including Notes issued under the Programme pursuant to the Previous Programme Memoranda) from time to time does not exceed the Programme Amount.

A Tranche of Notes may be listed on the Interest Rate Market or the Main Board of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer, subject to applicable laws. If a listing of a Tranche of Notes is sought on the Main Board of the JSE, the Issuer will be required, *inter alia*, to comply with the applicable requirements of Schedule 24 of the JSE Listings Requirements. Unlisted Notes may also be issued under the Programme. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange. If the Issuer issues a Tranche of unlisted Notes or a Tranche of Notes is listed on any Financial Exchange other than (or in addition to) the JSE, the Issuer will, by no later than the last day of the month of issue of that Tranche of Notes, inform the JSE in writing of the aggregate Nominal Amount and the Maturity Date (if any) of that Tranche of Notes.

This Programme Memorandum and any supplement will only be valid for the issue of Notes in an aggregate Nominal Amount which, when added to the aggregate Nominal Amount then outstanding of all the Notes previously or simultaneously issued under the Programme (including Notes issued under the Programme pursuant to the previous Programme Memoranda), does not exceed ZAR25,000,000,000 or its equivalent in other currencies.

For the purpose of calculating the South African Rand equivalent of the aggregate Nominal Amount of the Notes issued under the Programme from time to time, the South African Rand equivalent of the Notes denominated in another Specified Currency (as specified in the Applicable Pricing Supplement) shall be determined as of the date of agreement to issue such Notes (the “**Agreement Date**”) on the basis of the spot rate for the sale of the South African Rand against the purchase of such Specified Currency in the South African foreign exchange market quoted by any leading bank selected by the Issuer on the Agreement Date (the “**Conversion Rate**”) and in respect of:

- (a) Zero Coupon Notes and other Notes, the Conversion Rate shall be applied to the net subscription proceeds received by the Issuer for the relevant issue; and
- (b) Partly-Paid Notes and Index-Linked Notes, the Conversion Rate shall be applied to the Nominal Amount regardless of the amount paid-up on such Notes.

From time to time the Issuer may wish to increase the Programme Amount. Subject to the Applicable Procedures, all applicable laws and the Programme Agreement (as defined in the section headed “*Subscription and Sale*”), the Issuer may, without the consent of Noteholders, increase the Programme Amount by delivering a notice thereof to the JSE, CSD, Arrangers and the Dealer(s). Upon such notice being given and the conditions set out in the Programme Agreement to the exercise of this right having been met, all references in this Programme Memorandum (and each agreement, deed or document relating to the Programme and/or this Programme Memorandum) to the Programme Amount will be, and will be deemed to be, references to the increased Programme Amount set out in such notice.

As at the Programme Date, the Issuer is rated but the Programme is not rated. However, the Issuer may, at any time, obtain a rating by a Rating Agency for this Programme or any issue of Notes pursuant to this Programme. A Tranche of Notes may, on or before the Issue Date, be rated by a Rating Agency on a national scale or international scale basis. Unrated Tranches of Notes may also be issued. The Applicable Pricing Supplement will reflect the Rating, if any, which has been assigned to a Tranche of Notes, as well as the Rating Agency or Rating Agencies which assigned such Rating or Ratings. Neither a Rating of the Programme nor a Rating of a Tranche of Notes nor a rating of the Issuer is a recommendation to subscribe for, buy, sell or hold any Notes. A Rating of the Programme and/or a Rating of a Tranche of Notes and/or a rating of the Issuer may be subject to revision, suspension or withdrawal at any time by the Rating Agency.

This Programme Memorandum will only apply to Notes issued under the Programme.

A summary of the Programme and the Terms and Conditions appears below.

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## SUMMARY OF THE PROGRAMME

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*The following summary does not purport to be complete and is taken from and is qualified in its entirety by the remainder of this Programme Memorandum and, in relation to the Terms and Conditions of any particular Tranche of Notes, the Applicable Pricing Supplement. Words and expressions defined in the Terms and Conditions shall have the same meanings in this summary.*

### **PARTIES**

<b>Issuer</b>	African Bank Limited (Registration Number 1975/002526/06), a public company with limited liability duly incorporated in accordance with the company laws of South Africa.
<b>African Bank Group or ABIL Group</b>	African Bank Investments Limited, the owner of all the shares in the issued share capital of the Issuer, and all its subsidiaries within the meaning of section 3 of the Companies Act.
<b>Arrangers</b>	Rand Merchant Bank, a division of FirstRand Bank Limited (Registration Number 1929/001225/06) (“ <b>RMB</b> ”), a public company with limited liability duly incorporated in accordance with the laws of South Africa.
<b>Dealers</b>	<p>RMB,</p> <p>Absa Capital, a division of Absa Bank Limited (Registration Number 1986/004794/06);</p> <p>Deutsche Bank AG, Johannesburg Branch (Registration Number 1998/003298/10);</p> <p>Nedbank Capital, a division of Nedbank Limited (Registration Number 1951/000009/06);</p> <p>The Standard Bank of South Africa Limited (Registration Number 1962/000738/06),</p> <p>each a public company with limited liability duly incorporated in accordance with the laws of South Africa, and any other additional Dealer(s) appointed under the Programme by the Issuer from time to time which appointment may be for a specific issue or on an ongoing basis, subject to the Issuer’s right to terminate the appointment of such Dealer(s);</p>
<b>Debt Sponsor</b>	RMB, or such other entity appointed by the Issuer from time to time and as approved by the JSE;
<b>Agent</b>	Link Market Services South Africa (Proprietary) Limited (Registration Number 2000/007239/07), or such other entity appointed by the Issuer as Agent, in which event that other entity will act as Agent, as specified in the Applicable Pricing Supplement.
<b>Paying Agent</b>	African Bank Limited, or such other entity appointed by the Issuer as Paying Agent, in which event that other entity will act as Paying Agent, as specified in the Applicable Pricing Supplement.
<b>Calculation Agent</b>	African Bank Limited, or such other entity appointed by the Issuer (and as approved by the JSE) as Calculation Agent, in which event that other entity will act as Calculation Agent, as specified in the Applicable Pricing Supplement.
<b>CSD</b>	Strate Limited (Registration Number 1998/022242/06), registered as a central securities depository in terms of the Financial Markets Act or such additional, alternative or successor central securities depository as may be agreed

	between the Issuer and the Relevant Dealer(s).
<b>JSE</b>	the JSE Limited (Registration Number 2005/022939/06), a licensed exchange in terms of the Financial Markets Act or any exchange which operates as a successor exchange to the JSE.
<b>GENERAL</b>	
<b>Blocked Rand</b>	Blocked Rand may be used to subscribe for, or purchase, Notes, subject to the Exchange Control Regulations.
<b>Cross-Default</b>	Senior Notes of the Issuer will contain a cross default provision in respect of Borrowed Money of, or assumed or guaranteed by, the Issuer. See Condition 11 for further details.
<b>Denomination of Notes</b>	Notes will be issued in such denominations as may be agreed by the Issuer and the Relevant Dealer(s) and as indicated in the Applicable Pricing Supplement.
<b>Description of Programme</b>	African Bank Limited ZAR25,000,000,000 Domestic Medium Term Note Programme.
<b>Distribution</b>	Notes may be distributed by way of private placement, auction, bookbuild or any other means permitted under South African law, and in each case on a syndicated or non-syndicated basis as may be determined by the Issuer and reflected in the Applicable Pricing Supplement.
<b>Electronic Settlement and Clearing</b>	Each Tranche of Notes which is held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD. The CSD acts as the approved electronic clearing house, and carries on the role of matching, clearing and facilitation of settlement of all transactions carried out on the JSE. Each Tranche of Notes which is held in the CSD will be cleared by Participants who will follow the electronic settlement procedures prescribed by the JSE and the CSD (see the section of this Programme Memorandum headed “ <i>Settlement, Clearing and Transfers of Notes</i> ”).
<b>Form of Notes</b>	Each Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE and each Tranche of unlisted Notes will be issued in uncertificated form, and will be held in the CSD. Each Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE must be fully paid-up and freely transferable. The holder of a Beneficial Interest may exchange such Beneficial Interest for Notes in certificated form represented by an Individual Certificate (see the section of this Programme Memorandum headed “ <i>Form of the Notes</i> ”).
<b>Governing Law</b>	The Notes will be governed by and construed in accordance with the laws of South Africa in force from time to time.
<b>Interest</b>	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked, and the method of calculating interest may vary between the Issue Date and the Maturity Date.
<b>Interest Period(s)/Interest Payment Date(s)</b>	The Interest Rate, Interest Payment Date(s) and Interest Period(s), if any, applicable to a Tranche of Notes will be specified in the Applicable Pricing Supplement.
<b>Issue and Transfer Taxes</b>	As at the Programme Date, no securities transfer tax or any similar tax is payable in respect of the issue, transfer or redemption of the Notes (see the section of this Programme Memorandum headed “ <i>South African Taxation</i> ”). Any future

transfer duties and/or taxes that may be introduced in respect of (or may be applicable to) the transfer of Notes will be for the account of Noteholders.

**Issue Price**

Notes may, at the election of the Issuer, be issued on a fully paid or a partly paid basis and at their Nominal Amount or at a discount or premium to their Nominal Amount as specified in the Applicable Pricing Supplement. However, each Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE must be fully paid-up and freely transferable.

**Listing**

This Programme has been approved by the JSE. Notes issued under the Programme may be listed on the Interest Rate Market or the Main Board of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer and the Dealer(s), subject to all applicable laws. If a listing of a Tranche of Notes is sought on the Main Board of the JSE, the Issuer will be required, *inter alia*, to comply with the applicable requirements of Schedule 24 of the JSE Listings Requirements. Unlisted Notes may also be issued under the Programme. Unlisted Notes are not regulated by the JSE. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange(s).

**Maturities of Notes**

Notes may be issued with any Maturity Date or as may be agreed between the Issuer and the relevant Dealer, subject:

- to a minimum maturity of one month or such other period as may be required by the JSE and/or any other Financial Exchange(s) on which the Notes may be listed or in terms of any central banks requirement or any law;
- in relation to Tier 2 Notes, to such minimum maturities as may be required from time to time by the applicable Capital Regulations that are specified in the Applicable Pricing Supplement; and
- in respect of specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

The Notes are not subject to any maximum maturity.

**Negative Pledge**

So long as any of the Senior Notes remains Outstanding (as defined in the Agency Agreement, and repeated in the extract of such agreement annexed as Appendix 1 hereto), the Issuer undertakes not to secure any Indebtedness (as defined in Condition 4), or any guarantee or indemnity given in respect of any Indebtedness without at the same time granting security in respect of the Senior Notes equally and rateably with that given in respect of such Indebtedness or any such guarantee or indemnity given in respect of such Indebtedness or providing such other security as may be approved by Extraordinary Resolution (as defined in the Terms and Conditions) of the holders of Senior Notes.

**Noteholders**

The holders of Notes which are recorded as the registered Noteholders of those Notes in the Register. The CSD's Nominee will be named in the Register as the registered Noteholder of each Tranche of Notes which is held in the CSD. Each holder of Notes which is represented by an Individual Certificate will be named in the Register as the registered Noteholder of such Notes.

## Notes

Notes may comprise:

<b>Fixed Rate Notes</b>	Fixed Rate Notes will bear interest at a fixed Interest Rate as indicated in the Applicable Pricing Supplement and as more fully described in Condition 6.1.
<b>Floating Rate Notes</b>	Floating Rate Notes will bear interest as indicated in the Applicable Pricing Supplement and as more fully described in Condition 6.2.
<b>Index-Linked Notes</b>	Payments (whether in respect of interest on Indexed Interest Notes or in respect of principal on Indexed Redemption Amount Notes and whether at maturity or otherwise) will be calculated by reference to such index and/or formula as the Issuer and the Relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.
<b>Index Interest Notes</b>	Notes in respect of which the Interest Rate will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer may agree (as indicated in the Applicable Pricing Supplement).
<b>Index Redemption Amount Notes</b>	Notes in respect of which the amount payable in respect of principal is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer may agree (as indicated in the Applicable Pricing Supplement).
<b>Mixed Rate Notes</b>	Mixed Rate Notes will bear interest over respective periods at the rates applicable for any combination of Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or Index-Linked Notes, each as specified in the Applicable Pricing Supplement.
<b>Zero Coupon Notes</b>	Zero Coupon Notes will be issued at their Nominal Amount or at a discount to it and will not bear interest (except in the case of late payment as specified).
<b>Other Notes</b>	Terms applicable to any other type of Notes which are not specifically contemplated under this Programme Memorandum (but that are approved by the JSE, or its successor, or such other or further exchange or exchanges) as may be selected by the Issuer in relation to an issue of listed Notes, or as agreed between the Issuer and the Relevant Dealer(s) in respect of unlisted Notes, will be set out in the Applicable Pricing Supplement.

## Rating

As at the Programme Date, the Programme has not been rated by a rating agency. However the Issuer may, at any time, obtain a rating by a Rating Agency for this Programme or any issue of Notes pursuant to this Programme. In this regard a Tranche of Notes may, on or before the Issue Date, be rated by a Rating

Agency on a national scale or international scale basis. Unrated Tranches of Notes may also be issued. The Applicable Pricing Supplement will reflect the Rating, if any, which has been assigned to the Issuer and/or the Programme and/or a Tranche of Notes, as the case may be, as well as the Rating Agency or Rating Agencies which assigned such Rating(s).

A Rating is not a recommendation to subscribe for, buy, sell or hold Notes and may be subject to revision, suspension or withdrawal at any time by the Rating Agency. Any adverse change in the Rating of the Issuer and/or the Programme and/or a Tranche of Notes, as the case may be, could adversely affect the trading price of all or any of the Notes.

## **Redemption**

The Applicable Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes cannot be redeemed prior to their stated maturity, other than in specified instalments (see below), if applicable, or for taxation reasons or if a Regulatory Event occurs and while it is continuing or following an Event of Default, or that such Notes will be redeemable at the option of the Issuer and/or, in the case of Senior Notes only, at the option of the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice, or such other notice period (if any) as is indicated in the Applicable Pricing Supplement, to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the Applicable Pricing Supplement. See Condition 8 and Condition 11 for further details.

Subject to the applicable Capital Regulations, Tier 2 Notes may have a minimum period to maturity determined in accordance with the Capital Regulations relating to such Tier 2 Notes as set out in the Applicable Pricing Supplement. Notwithstanding the foregoing, for so long as the applicable Capital Regulations so require, Tier 2 Notes may be redeemed, or purchased and cancelled by the Issuer prior to the Maturity Date, only at the option of the Issuer and with the prior written approval of the Registrar of Banks and in accordance with the Additional Conditions (if any) approved by the Registrar of Banks, even when an Event of Default has occurred.

Notes may be redeemable at par or at such other redemption amount (detailed in a formula, index or otherwise) as may be specified in the Applicable Pricing Supplement. The Applicable Pricing Supplement may provide that Notes may be repayable in two or more instalments of such amounts and on such dates as indicated in the Applicable Pricing Supplement.

## **Selling Restrictions**

The distribution of this Programme Memorandum and/or any Applicable Pricing Supplement and any offering or sale of or subscription for a Tranche of Notes may be restricted by law in certain jurisdictions, and is restricted by law in the United States of America, the United Kingdom, the European Economic Area and South Africa (see the section of this Programme Memorandum headed "*Subscription and Sale*"). Any other or additional restrictions which are applicable to the placing of a Tranche of Notes will be set out in the Applicable Pricing Supplement. Persons who come into possession of this Programme Memorandum and/or any Applicable Pricing Supplement must inform themselves about and observe all applicable selling restrictions.

## **Size of the Programme**

As at the Programme Date, the Programme Amount is

ZAR25,000,000,000. This Programme Memorandum will only apply to Notes issued under the Programme (including Notes issued under the Programme pursuant to the Previous Programme Memoranda) in an aggregate outstanding Nominal Amount which does not exceed the Programme Amount. The Issuer may increase the Programme Amount in the manner set out in the section of this Programme Memorandum headed “General Description of the Programme”.

**Specified Currency**

South African Rand or, subject to all applicable laws and, in the case of Notes listed on the Interest Rate Market or the Main Board of the JSE and the JSE Listings Requirements, such other currency as is specified in the Applicable Pricing Supplement.

**Status and Characteristics of Senior Notes**

Unless otherwise specified in the Applicable Pricing Supplement, the Senior Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

**Status and Characteristics of Subordinated Notes**

The Subordinated Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured and subordinated obligations of the Issuer, save for those that have been afforded preferential rights by law.

Subject to applicable law, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up, then and in any such event the claims of the persons entitled to be paid amounts due in respect of the Subordinated Notes shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness of the Issuer (as defined below). Accordingly, in any such event, and provided as aforesaid, no amount shall be eligible for set-off or shall be payable to any or all of the persons entitled to be paid amounts due in respect of the Subordinated Notes until all other indebtedness of the Issuer which is admissible in any such dissolution, liquidation or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

**Status of the Tier 2 Notes and Loss Absorption at point of Non-Viability**

- In order for the proceeds of the issue of a Tranche of Subordinated Notes to qualify as Tier 2 Capital, such Subordinated Notes must comply with the applicable Capital Regulations including the Additional Conditions (if any) prescribed by the Registrar of Banks in respect of that Tranche of Tier 2 Notes. The Issuer will specify in the Applicable Pricing Supplement whether, in respect of any issue of Subordinated Notes, the proceeds thereof are intended to qualify as Tier 2 Capital. In compliance with such Capital Regulations:
- the holders of the Tier 2 Notes shall not have the right to accelerate the payment of future scheduled payments, including principal, interest and any additional amounts except in the case of the bankruptcy and/or liquidation of the Issuer;
- Tier 2 Notes must have a minimum maturity of five years and one day; and

- the Tier 2 Notes may, at the option of the Registrar of Banks, either be written off or converted into the most subordinated form of equity of the Issuer or its controlling company upon the occurrence of a Trigger Event specified in writing by the Registrar of Banks (as contemplated in Condition 5.2) unless duly enforceable legislation is in place that (i) requires the Tier 2 Notes to be written off upon the occurrence of the aforesaid event, or (ii) otherwise requires the Tier 2 Notes to fully absorb loss before tax payers or ordinary depositors are exposed to the loss.

**Subordinated Indebtedness**

Any indebtedness of the Issuer, including any guarantee by the Issuer, under which the right of payment of the person(s) entitled thereto is, or is expressed to be, or is required by any present or future agreement of the Issuer to be, subordinated to the rights of all unsubordinated creditors of the Issuer in the event of the dissolution, winding-up, liquidation or the commencement of business rescue proceedings in respect of the Issuer.

**Substitution and Variation of the Tier 2 Notes**

If a Regulatory Event has occurred and is continuing, then the Issuer may, subject as provided in the Terms and Conditions, without any requirement for the consent or approval of the Noteholders of the Tier 2 Notes, elect to substitute all (but not only some) of the relevant Tier 2 Notes for, or vary the terms of the relevant Tier 2 Notes so that they will, or will continue to, qualify as Tier 2 Capital under the Capital Regulations (including the Additional Conditions (if any) prescribed by the Registrar of Banks in respect of such Tier 2 Notes).

**Stabilisation**

In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer, if any, that is specified in the Applicable Pricing Supplement as the Stabilising Manager (or any person acting for the Stabilising Manager) may, if specified in that Applicable Pricing Supplement and only if such stabilising is permitted by the JSE Listings Requirements and in accordance with the Financial Markets Act and approved by the JSE, over-allot or effect transactions with a view to supporting and maintaining the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

**Use of Proceeds**

The Issuer will use the issue proceeds of the Notes for its general corporate purposes, or as may otherwise be described in the Applicable Pricing Supplement.

**Withholding Taxes**

As at the Programme Date all payments in respect of the Notes will be made without withholding or deduction for or on account of taxes levied in South Africa. In the event that withholding tax or such other deduction is required by law, then the Issuer will, subject to certain exceptions as provided in Condition 9, pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.

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## **FORM OF THE NOTES**

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*Words used in this section headed "Form of the Notes" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

Notes are issued in accordance with South African laws and in accordance with the Issuer's constitutional documents.

Each Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE must be fully paid-up and freely transferable.

Each Tranche of Notes will be issued in the form of registered Notes in accordance with the Conditions and represented by (i) Individual Certificates, or (ii) no Individual Certificates, if issued in uncertificated form in terms of section 33 of the Financial Markets Act.

### ***Notes issued in certificated form***

The Applicable Procedures of the current CSD, namely Strate Limited, do not permit the receipt of and immobilisation of a single Global Certificate representing a Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE or unlisted.

Notes represented by Individual Certificates will be registered in the Register in the name of the individual Noteholders of such Notes.

Title to Notes represented by Individual Certificates will pass upon registration of transfer in accordance with Condition 14.2 of the Terms and Conditions.

The Issuer shall regard the Register as the conclusive record of title to the Notes represented by Individual Certificates.

Payments of all amounts due and payable in respect of Notes represented by Individual Certificates will be made in accordance with Condition 7 of the Terms and Conditions to the person reflected as the registered Noteholder of such Notes in the Register at 17h00 (South African time) on the Last Day to Register, and the Issuer will be discharged by proper payment to or to the order of such registered holder in respect of each amount so paid.

### ***Notes issued in uncertificated form***

If the Notes are to be listed on the Interest Rate Market or the Main Board of the JSE the Issuer will, subject to applicable laws and Applicable Procedures, issue such Notes in uncertificated form in terms of section 33 of the Financial Markets Act. Unlisted Notes may also be issued in uncertificated form. Notes issued in uncertificated form will not be represented by any certificate or written instrument. A Tranche of Notes issued in uncertificated form will be held by the CSD, and the CSD's Nominee will be named in the Register as the registered Noteholder of that Tranche of Notes.

### ***Beneficial Interests in Notes held in the CSD***

A Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE will be issued in uncertificated form and held in the CSD. A Tranche of unlisted Notes may also be held in the CSD. While a Tranche of Notes is held in the CSD, the CSD's Nominee will be named in the Register as the sole Noteholder of the Notes in that Tranche.

The CSD will hold each Tranche of Notes subject to the Financial Markets Act and the Applicable Procedures. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee for the holders of Beneficial Interests in such Notes.

The CSD maintains central securities accounts only for Participants. As at the Programme Date, the Participants are Absa Bank Limited, FirstRand Bank Limited, Nedbank Limited, The Standard Bank of South Africa Limited, Citibank N.A. - South Africa Branch, Standard Chartered Bank - Johannesburg Branch and the SARB. Beneficial Interests which are held by Participants will be held directly through the CSD, and the CSD will hold such Beneficial Interests, on behalf of such Participants, through the central securities accounts maintained by the CSD for such Participants.

The Participants are in turn required to maintain securities accounts for their clients. Beneficial Interests which are held by clients of Participants will be held indirectly through such Participants, and such Participants will hold such Beneficial Interests, on behalf of such clients, through the securities accounts maintained by such

Participants for such clients. The clients of Participants may include the holders of Beneficial Interests in the Notes or their custodians. The clients of Participants, as the holders of Beneficial Interests or as custodians for such holders, may exercise their rights in respect of the Notes held by them in the CSD only through their Participants. Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, (Clearstream Luxembourg) (“**Clearstream**”) may hold Notes through their Participant.

In relation to each person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular outstanding Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to the outstanding Nominal Amount of such Notes standing to the account of any person shall be *prima facie* proof of such Beneficial Interest. The CSD’s Nominee (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Agent and the relevant Participant as the holder of that outstanding Nominal Amount of such Notes for all purposes.

Title to Beneficial Interests held by Participants directly through the CSD will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the CSD for such Participants. Title to Beneficial Interests held by clients of Participants indirectly through such Participants will pass on transfer thereof by electronic book entry in the security accounts maintained by such Participants for such clients. Beneficial Interests may be transferred only in accordance with the Applicable Procedures. Holders of Beneficial Interests vote in accordance with the Applicable Procedures.

The holder of a Beneficial Interest will only be entitled to exchange such Beneficial Interest for Notes represented by an Individual Certificate in accordance with Condition 12 of the Terms and Conditions.

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**PRO FORMA APPLICABLE PRICING SUPPLEMENT**

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Set out below is the form of Applicable Pricing Supplement that will be completed for each Tranche of Notes issued under the Programme:

**AFRICAN BANK LIMITED**

*(Incorporated with limited liability in the Republic of South Africa under Registration Number 1975/002526/06)*

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**Under its ZAR25,000,000,000 Domestic Medium Term Note Programme**

**[Stock Code [●]]**

This document constitutes the Applicable Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Programme Memorandum dated 30 May 2014 as amended or supplemented from time to time (collectively the "Supplements"). The Notes described in this Applicable Pricing Supplement are subject to the Terms and Conditions in the Programme Memorandum and this Applicable Pricing Supplement must be read in conjunction with such Programme Memorandum and the Supplements. To the extent that there is any conflict or inconsistency between the contents of this Applicable Pricing Supplement and the Programme Memorandum, as supplemented, the provisions of this Applicable Pricing Supplement shall prevail.

**DESCRIPTION OF NOTES**

1.	Issuer	African Bank Limited
2.	Status of Notes	[Senior/Unsecured/Subordinated]
3.	Series Number	[ ]
4.	Tranche Number	[ ]
5.	Additional Conditions	[ ] (if applicable give details)
6.	Provisions applicable to Tier 2 Notes	[ ] (For Subordinated Notes that are also Tier 2 Notes specify the Additional Conditions (if any) prescribed by the Registrar of Banks and those of the Applicable Regulations (if any) which are not set out in the Terms and Conditions or elsewhere in this Applicable Pricing Supplement.)
7.	Aggregate Nominal Amount/Principal Amount:	
	(a) Series	[ ]
	(b) Tranche	[ ]
8.	Interest	[Interest-bearing/Non-interest-bearing]
9.	Interest Payment Basis	[[Fixed Rate/Floating Rate/Zero Coupon/Index-Linked/Partly Paid /Instalment] Notes/other]
10.	Automatic/Optional Conversion from one Interest/Redemption/Payment Basis to another	[Insert details including date for conversion]
11.	Form of Notes	[[Listed/Unlisted] Registered Notes: [The Notes in this Tranche are issued in uncertificated form and held by the CSD]. ]
12.	Issue Date	[ ]
13.	Settlement Date	[ ]

14. Maturity Date [ ]
15. Maturity Period *(Subject to the applicable Tier 2 Regulations. Subordinated Notes that are also Tier 2 Notes may have a minimum maturity period (if any) as determined in accordance with applicable Capital Regulations.)*
16. Nominal Amount per Note [ ]
17. Specified Denomination [ ]
18. Issue Price [ ]
19. Interest Commencement Date [ ]
20. Payment Day (if different from that set out in Condition 7.6) [insert details]
21. Specified Currency [ ]
22. Final Redemption Amount [ ]
23. Books Closed Period(s) The Register will be closed from [...] to [...] and from [...] to [...] (all dates inclusive) in each year until the Maturity Date
24. Last Day to Register [ ]
25. Business Centre [Johannesburg]
26. Additional Business Centre [N/A]
27. Description of Underlying Asset [N/A]
28. Note Linked to another Listed Instrument [N/A]

#### **FIXED RATE NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

29. (a) Fixed Rate of Interest [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
- (b) Fixed Interest Payment Date(s) [ ] in each year up to and including the Maturity Date/other
- (c) Initial Broken Amount [ ]
- (d) Final Broken Amount [ ]
- (e) Any other terms relating to the particular method of calculating interest [ ]

#### **FLOATING RATE NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

30. (a) Floating Interest Payment Date(s) [ ]
- (b) Interest Period(s) [ ]
- (c) Interest Rate [ ]
- (d) Definition of Business Day (if different from that set out in Condition 6) [ ]
- (e) Minimum Rate of Interest [ ] per cent. per annum
- (f) Maximum Rate of Interest [ ] per cent. per annum
- (g) Other terms relating to the method of calculating interest (e.g.: Day Count Fraction, rounding up [ ]

- provision)
31. Manner in which the Rate of Interest is to be determined [ISDA Determination / Screen Rate Determination/other – insert details]
32. Margin [(...) basis points to be added to/subtracted from the relevant ISDA Rate / Reference Rate]
33. If ISDA Determination:
- (a) Floating Rate [ ]
  - (b) Floating Rate Option [ ]
  - (c) Designated Maturity [ ]
  - (d) Reset Date(s) [ ]
  - (e) ISDA Definitions to apply [ ]
34. If Screen Determination:
- (a) Reference Rate (including relevant period by reference to which the Rate of Interest is to be calculated) [e.g. ZAR-JIBAR-SAFEX]
  - (b) Interest Rate Determination Date(s) [ ]
  - (c) Relevant Screen Page and Reference Code [ ]
35. If Rate of Interest to be calculated otherwise than by ISDA Determination or Screen Determination, insert basis for determining Rate of Interest/Margin/Fallback provisions [ ]
36. Calculation Agent responsible for calculating amount of principal and interest [ ]

**ZERO COUPON NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

37. (a) Implied Yield [ ]
- (b) Reference Price Percent [NACA] [NACM] [NACQ] [NACS] [other method of compounding]
- (c) Any other formula or basis for determining amount(s) payable [ ]

**PARTLY PAID NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

38. (a) Amount of each payment comprising the Issue Price [ ]
- (b) Dates upon which each payment is to be made by Noteholder [ ]
- (c) Consequences (if any) of failure to make any such payment by Noteholder [ ]
- (d) Interest Rate to accrue on the first and subsequent instalments after the due date for payment of such instalments [ ] per cent. per annum

**INSTALMENT NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

39. Instalment Dates [ ]
40. Instalment Amounts (expressed as a percentage of the aggregate Nominal Amount of the Notes) [ ]

**MIXED RATE NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

41. Period(s) during which the Interest Rate for the Mixed Rate Notes will be (as applicable) that for:
- (a) Fixed Rate Notes [ ]
- (b) Floating Rate Notes [ ]
- (c) Index-Linked Notes [ ]
- (d) Other Notes [ ]
42. The Interest Rate and other pertinent details are set out under the headings relating to the applicable forms of Notes

**INDEX-LINKED NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

43. (a) Type of Index-Linked Notes [Indexed Interest Notes / Indexed Redemption Amount Notes]
- (b) Index/Formula by reference to which Interest Rate / Interest Amount is to be determined [ ]
- (c) Manner in which the Interest Rate / Interest Amount is to be determined [ ]
- (d) Interest Period(s) [ ]
- (e) Interest Payment Date(s) [ ]
- (f) Provisions where calculation by reference to Index and/or Formula is impossible or impracticable [ ]
- (g) Definition of Business Day (if different from that set out in [the Terms and Conditions (Interpretation)](?)) [ ]
- (h) Minimum Rate of Interest [ ] per cent. per annum
- (i) Maximum Rate of Interest [ ] per cent. per annum
- (j) Other terms relating to the method of calculating interest [ ]

**OTHER NOTES**

*(Subject, in the case of Tier 2 Notes to the applicable Capital Regulations)*

44. If the Notes are not Partly Paid Notes, Instalment Notes, Fixed Rate Notes, Floating Rate Notes, Mixed Rate Notes, Zero Coupon Notes or Index-linked Notes or if the Notes are a combination [ ]

of any of the foregoing, set out the relevant description and any additional Terms and Conditions relating to such Notes.

**PROVISIONS REGARDING REDEMPTION/MATURITY**

45. Prior consent of Registrar of Banks for any redemption prior to Maturity Date [Yes/No]
46. Redemption at the Option of the Issuer: [Yes/No]  
 If yes:  
 (a) Optional Redemption Date(s) [ ]  
 (b) Minimum period of notice (if different from Condition 8.4) [ ]  
 (c) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s) [ ]  
 (d) If redeemable in part: [ ]  
     Minimum Redemption Amount(s) [ ]  
     Higher Redemption Amount(s) [ ]  
 (e) Other terms applicable on Redemption [ ]
47. Redemption at the Option of the Senior Noteholders: [Yes/No]  
 if yes:  
 (a) Optional Redemption Date(s) [ ]  
 (b) Optional Redemption Amount(s) [ ]  
 (c) Minimum period of notice (if different from Condition 8.5) [ ]  
 (d) If redeemable in part: [ ]  
     Minimum Redemption Amount(s) [ ]  
     Higher Redemption Amount(s) [ ]  
 (e) Other terms applicable on Redemption [ ]
48. Early Redemption Amount(s) payable on redemption for taxation reasons or on redemption for Regulatory Reasons or on Event of Default (if required). [ ]

**GENERAL**

49. Financial Exchange [ ]
50. Additional selling restrictions [ ]
51. ISIN No. [ ]
52. Stock Code [ ]
53. Stabilising manager [ ]
54. Provisions relating to stabilisation [ ]
55. Method of distribution [ ]

- |     |  |  |
|-----|--|--|
| 56. | Rating assigned to the [Issuer] / [Programme] / [Notes] (if any)                           | [       ]  |
| 57. | Rating Agency  | [       ]  |
| 58. | Date of Rating   | [       ]  |
| 59. | Date of next Rating Review   | [       ]  |
| 60. | Governing law (if the laws of South Africa are not applicable)                             | [       ]  |
| 61. | The notice period required for exchanging uncertificated Notes for Individual Certificates | [       ]  |
| 62. | Surrendering of Notes in the case of Notes represented by an Individual Certificate        | [               ] days after the date on which the Individual Certificate in respect of the Note to be redeemed has been surrendered to the Issuer |
| 63. | Use of Proceeds  | [If other than stated in the Programme Memorandum]   |
| 64. | Aggregate Nominal Amount of Notes in Issue   | [       ]  |
| 65. | Other provisions (including additional covenants, if any)                                  | [       ]  |

**Responsibility:**

The Issuer certifies that, to the best of its knowledge and belief, there are no facts that have been omitted which would make any statements in this Programme Memorandum false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this Programme Memorandum contains all information required by law and the JSE Listings Requirements.

The Issuer accepts full responsibility for the accuracy of the information contained in this Programme Memorandum, any applicable pricing supplements, and the annual report or the amendments to the annual report, except as otherwise stated therein.

Application [is hereby]/[will not be] made to list this issue of Notes [on ● ●●●●].

**SIGNED** at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20●●

For and on behalf of  
**AFRICAN BANK LIMITED**

\_\_\_\_\_  
Name:  
Capacity:  
Who warrants his/her authority hereto

\_\_\_\_\_  
Name:  
Capacity:  
Who warrants his/her authority hereto

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## TERMS AND CONDITIONS OF THE NOTES

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*The following are the Terms and Conditions of the Notes to be issued by the Issuer which will be incorporated by reference into each Note.*

*Capitalised expressions used in these Terms and Conditions and not here defined shall bear the meaning assigned to them in the Applicable Pricing Supplement.*

*Before the Issuer issues any Tranche of Notes, the Issuer shall complete and sign the Applicable Pricing Supplement, setting out details of such Notes. The Applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Tranche of Notes. The Applicable Pricing Supplement for each Tranche of Notes is (to the extent relevant) incorporated herein for the purposes of those Notes and supplements these Terms and Conditions. If there is any conflict or inconsistency between the provisions set out in the Applicable Pricing Supplement and the provisions set out in the following Terms and Conditions, then the provisions in the Applicable Pricing Supplement will prevail.*

The Issuer may, with respect to a particular Tranche of Notes, at its option and subject to the prior written approval of the Registrar of Banks, issue Notes the proceeds of which will qualify as Tier 2 Capital subject to the conditions applicable to the Notes (as specified in the applicable pricing supplement).

Copies of the Agency Agreement and the Applicable Pricing Supplement are available for inspection at the registered office of the Issuer. The Noteholders are deemed to have notice of, and are entitled to the benefit of, and are subject to, all the provisions of the Agency Agreement and the Applicable Pricing Supplement.

Words and expressions defined in the Agency Agreement or used in the Applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated. Any reference to legislation or a statute shall be to such legislation or statute as amended, varied or re-enacted from time to time.

In these Terms and Conditions and the Applicable Pricing Supplement, unless inconsistent with the context or separately defined in the Applicable Pricing Supplement, the following expressions shall have the following meanings:

<b>“Additional Conditions”</b>	in relation to any issue of Tier 2 Notes, such conditions (in addition to the conditions specified in the applicable Capital Regulations) as may be prescribed by the Registrar of Banks for the proceeds of the issue of such Notes to qualify as Tier 2 Capital pursuant to the approval granted by the Registrar of Banks for the issue of such Notes;
<b>“African Bank Group” or “ABIL Group”</b>	African Bank Investments Limited, the owner of all the shares in the issued share capital of the Issuer, and all its subsidiaries within the meaning of section 3 of the Companies Act;
<b>“Agent”</b>	Link Market Services South Africa (Proprietary) Limited, Registration Number 2000/007239/07, acting as Agent, or any successor Agent appointed under the Agency Agreement;
<b>“Agency Agreement”</b>	the agency agreement dated 10 September 2001 and made between the Issuer, the juristic persons then appointed to act as the Agent, the Paying Agent and the Calculation Agent;
<b>“Applicable Pricing Supplement”</b>	in relation to a Tranche of Notes, the pricing supplement completed and signed by the Issuer in relation to that Tranche of Notes, setting out the additional and/or other terms and conditions as are applicable to that Tranche of Notes, based upon the <i>pro forma</i> pricing supplement which is set out in the section of the Programme Memorandum headed “ <i>Pro Forma Applicable Pricing Supplement</i> ”;
<b>“Applicable Procedures”</b>	the rules and operating procedures for the time being of the CSD, the Participants and the JSE Listings Requirements and/or the listings requirements of any other Financial Exchange, as the case may be;
<b>“Banks Act”</b>	the Banks Act, 1990;

<b>“Beneficial Interest”</b>	in relation to a Tranche of Notes which is held in the CSD, the beneficial interest as co-owner of an undivided share of all of the Notes in that Tranche, as contemplated in section 37(1) of the Financial Markets Act, the nominal value of which beneficial interest, in relation to any number of Notes in that Tranche, is determined by reference to the proportion that the aggregate outstanding Nominal Amount of such number of Notes bears to the aggregate outstanding Nominal Amount of all of the Notes in that Tranche, as provided in section 37(3) of the Financial Markets Act;
<b>“BESA Guarantee Fund Trust”</b>	the guarantee fund established and operated by the Bond Exchange of South Africa Limited (“ <b>BESA</b> ”), prior to its merger with the JSE on 22 June 2009 and, as at the Programme Date, operated by the JSE as a separate guarantee fund, in terms of the JSE Listings Requirements of the JSE or any successor fund;
<b>“Books Closed Period”</b>	in relation to a Tranche of Notes, the period, as specified in the Applicable Pricing Supplement, commencing after the Last Day to Register, during which transfer of the Notes will not be registered in order to determine those Noteholders entitled to receive interest;
<b>“Borrowed Money”</b>	for the purposes of Condition 11, any present or future borrowed money or other arrangement with the same commercial effect as borrowed money denominated or containing a right or requirement for any payment in respect thereof to be made in any currency and amounting in aggregate to not less than ZAR50,000,000 (or its equivalent in other currencies);
<b>“Business Day”</b>	a day (other than a Saturday or Sunday or public holiday within the meaning of the Public Holidays Act, 1994) which is a day on which commercial banks settle ZAR payments in Johannesburg or any Additional Business Centre specified in the Applicable Pricing Supplement, save that if the Specified Currency is not ZAR, “ <i>Business Day</i> ” shall mean a day (other than a Saturday or Sunday) which is a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the Specified Currency and in each (if any) Additional Business Centre, save further that if the Applicable Pricing Supplement so provides, “Business Day” shall include a Saturday;
<b>“Calculation Agent”</b>	African Bank Limited, Registration Number 1975/002526/06, unless the Issuer and the relevant Dealer or, in the case of a syndicated issue, the Lead Manager(s), agree to the appointment in relation to a particular Tranche or Series of Notes, of another entity as Calculation Agent in which event the other entity, on execution of a Calculation Agency Agreement substantially in the form of Schedule 5 to the Agency Agreement shall act as Calculation Agent in respect of that Tranche or Series of Notes;
<b>“Capital Regulations”</b>	at any time, any legislation, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in South Africa in relation to banks registered under the Banks Act and licensed to conduct the business of a bank in South Africa;
<b>“Certificate”</b>	an Individual Certificate;
<b>“Common Monetary Area”</b>	South Africa, Lesotho, Namibia, and Swaziland;
<b>“Companies Act”</b>	the Companies Act, 2008 as amended or replaced from time to time;
<b>“CSD”</b>	Strate Limited (registration number 1998/022242/06), or its nominee, licensed as a central securities depository in terms of the Financial Markets Act or any successor depository, or any additional or alternate depository approved by the Issuer;
<b>“CSD’s Nominee”</b>	a wholly owned subsidiary of the CSD approved as a nominee for the purposes of the Financial Markets Act and any reference to “CSD’s

	<i>nominee</i> ” shall, whenever the context permits, be deemed to include any successor nominee operating in terms of the Financial Markets Act;
“ <b>Dealer</b> ”	RMB, Deutsche Bank AG, represented by its Johannesburg Branch, Nedbank Capital, a division of Nedbank Limited, The Standard Bank of South Africa Limited and Absa Capital, a division of Absa Bank Limited and any other additional Dealer(s) appointed under the Programme from time to time which appointment may be for a specific issue or on an ongoing basis, subject to the Issuer’s right to terminate the appointment of any Dealer;
“ <b>Early Redemption Amount</b> ”	the amount at which the Notes will be redeemed by the Issuer pursuant to the provisions of Condition 8.2 and/or Condition 8.3 and/or Condition 8.6, as set out in Condition 8.7 or as set out in the Applicable Pricing Supplement;
“ <b>Encumbrances</b> ”	any mortgage, charge, lien, pledge, assignment, hypothecation, preferential right, or any other security interest or arrangement;
“ <b>Event of Default</b> ”	an event of default by the Issuer as set out in Condition 11;
“ <b>Exchange Control Regulations</b> ”	the Exchange Control Regulations, 1961, promulgated pursuant to the Currency and Exchanges Act, 1933;
“ <b>Extraordinary Resolution</b> ”	a resolution passed at a meeting (duly convened) of the Noteholders or, as the case may be, by a majority consisting of not less than 66.67 per cent. of the persons voting at such meeting upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 66.67 per cent. of the votes given on such poll;
“ <b>FATCA</b> ”	sections 1471 and 1472 of the Internal Revenue Code of 1986, as amended (including the United States Treasury regulations and other guidance issued and any agreements entered into thereunder);
“ <b>Final Redemption Amount</b> ”	the amount of principal payable in respect of each Note upon the final redemption thereof, as specified in, or determined in the manner specified in, the Applicable Pricing Supplement;
“ <b>Financial Exchange</b> ”	the JSE or its successor, and/or any further financial exchange or financial exchanges on which any Notes shall be listed, and references in this Programme Memorandum to the “relevant Financial Exchange(s)” shall, in relation to any Notes, be references to the financial exchange(s) or stock exchange(s) on which such Notes are from time to time, or are intended to be, listed subject to applicable laws;
“ <b>Financial Markets Act</b> ”	Financial Markets Act 19 of 2012, as amended from time to time;
“ <b>Fixed Rate Notes</b> ”	Notes which will bear interest at a fixed Interest Rate, as indicated in the Applicable Pricing Supplement and more fully described in Condition 6.1;
“ <b>Floating Rate Notes</b> ”	Notes which will bear interest as indicated in the Applicable Pricing Supplement and more fully described in Condition 6.2;
“ <b>Indebtedness</b> ”	any indebtedness in respect of monies borrowed and guarantees given, whether present or future, actual or contingent;
“ <b>Indexed Interest Notes</b> ”	Notes in respect of which the Interest Rate will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer may agree (as indicated in the Applicable Pricing Supplement);
“ <b>Indexed Redemption Amount Notes</b> ”	Notes in respect of which the amount payable in respect of principal is calculated by reference to an index and/or a formula as the Issuer and the relevant Dealer may agree (as indicated in the Applicable Pricing Supplement);
“ <b>Individual Certificate</b> ”	a Note in the definitive registered form of a single certificate and being a

	certificate exchanged for Beneficial Interest in accordance with Condition 12 and any further certificate issued in consequence of a transfer thereof;
<b>“Instalment Notes”</b>	Notes issued at the same date but maturing on different Instalment Dates (as indicated in the Applicable Pricing Supplement);
<b>“Interest Amount”</b>	the amount of interest payable in respect of Floating Rate Notes and Indexed Notes, as determined in accordance with Conditions 6.2.5 and 6.3, respectively;
<b>“Interest Payment Date”</b>	the Interest Payment Date(s) specified in the Applicable Pricing Supplement or if no express Interest Payment Date(s) is/are specified in the Applicable Pricing Supplement, each date which occurs after a certain number of months after the preceding Interest Payment Date (such number of months as specified in the Applicable Pricing Supplement) or such other period as specified in the Applicable Pricing Supplement after the preceding Interest Payment Date, or, in the case of the first Interest Payment Date, after the Interest Commencement Date;
<b>“Interest Period”</b>	in relation to a Tranche of Notes, each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;
<b>“Interest Rate” and “Rate of Interest”</b>	in relation to a Tranche of Notes, the rate or rates of interest applicable to Notes other than Zero Coupon Notes as indicated in the Applicable Pricing Supplement;
<b>“ISDA”</b>	International Swaps and Derivatives Association, Inc;
<b>“ISDA Definitions”</b>	the 2006 ISDA Definitions published by ISDA (as amended, supplemented, revised or republished from time to time) as specified in the Applicable Pricing Supplement;
<b>“Issuer”</b>	African Bank Limited, Registration Number 1975/002526/06;
<b>“JSE”</b>	the JSE Limited (Registration Number 2005/022939/06), a licensed exchange in terms of the Financial Markets Act or any exchange which operates as a successor exchange to the JSE;
<b>“Last day to Register”</b>	the date or dates immediately preceding a payment date in respect of Notes on which the Register is closed for further transfers or entries until the payment date. Noteholders reflected in the Register on the relevant Last day to Register shall be entitled to payments of interest and principal;
<b>"JSE Listings Requirements"</b>	the listings requirements of the JSE, which includes the debt listing requirements of the JSE pursuant to the provisions of the Financial Markets Act;
<b>“Material Subsidiary”</b>	a subsidiary of the Issuer as defined in section 3 of the Companies Act and which represents more than 10 per cent. of the total assets of the Issuer as reflected in the Issuer’s most recent audited annual financial statements;
<b>“Nominal Amount”</b>	in relation to any Note, the total amount, excluding interest and any adjustments on account of any formula, owing by the Issuer under the Note, as specified in the Applicable Pricing Supplement;
<b>“Noteholders”</b>	the registered holders of the Notes as recorded in the Register;
<b>“Notes”</b>	Senior Notes, Subordinated Notes or Subordinated Notes which are Tier 2 Notes issued or to be issued by the Issuer under the Programme, pursuant to this Programme Memorandum;
<b>“Optional Redemption Amount”</b>	in respect of any Note, its Nominal Amount or such other amount, as specified in, or determined in the manner specified in, the Applicable Pricing Supplement;

<b>“Outstanding”</b>	shall bear the same meaning ascribed thereto in the Agency Agreement;
<b>“Participant”</b>	a person authorised by the CSD as a participant in terms of section 31 of the Financial Markets Act;
<b>“Partly Paid Notes”</b>	Notes which are issued with the Issue Price partly paid and which Issue Price is paid-up fully by the Noteholder in instalments (as indicated in the Applicable Pricing Supplement);
<b>“Paying Agent”</b>	African Bank Limited, Registration Number 1975/002526/06, or any successor Paying Agent appointed under the Agency Agreement, unless the Issuer elects to appoint another entity as Paying Agent, in which event that other entity shall act as a Paying Agent in respect of that Tranche or Series of Notes, as indicated in the Applicable Pricing Supplement;
<b>“Payment Date”</b>	any day which is a Business Day and upon which a payment is due by the Issuer in respect of the Notes;
<b>“Programme”</b>	the ZAR25,000,000,000 Domestic Medium Term Note Programme as restated, amended or increased from time to time, under which the Issuer may from time to time issue Notes denominated in the Specified Currency;
<b>“Programme Amount”</b>	the maximum aggregate outstanding Nominal Amount of all of the Notes that may be issued under the Programme at any one point in time (including the Notes issued under the Programme pursuant to the Previous Programme Memoranda), being ZAR25,000,000,000 or such increased amount as is determined by the Issuer from time to time, subject to the Applicable Procedures, applicable laws and the Programme Agreement, as set out in the section of this Programme Memorandum headed “ <i>General Description of the Programme</i> ”;
<b>“Programme Date”</b>	the date of this Programme Memorandum being 30 May 2014;
<b>“Rate of Interest” or “Interest Rate”</b>	in relation to a Tranche of Notes, the rate or rates of interest applicable to Notes other than Zero Coupon Notes as indicated in the Applicable Pricing Supplement;
<b>“Register”</b>	the register maintained by the Agent in terms of the Agency Agreement;
<b>“Registrar Of Banks”</b>	the Registrar of Banks designated under section 4 of the Banks Act;
<b>“Regulatory Change”</b>	a change in, or amendment to, the Capital Regulations or any change in their application or in any official or generally published guidance or interpretation of the Capital Regulations, which change or amendment becomes, or would become, effective on or after the date of issue of the first Tranche of the relevant Series;
<b>“Regulatory Event”</b>	an event which is deemed to have occurred if, with respect to the notes of any Series which qualify as Tier 2 Capital on the date of issue of the first Tranche of Notes of that Series, the proceeds of the issue of the Notes would, as a result of a Regulatory Change, no longer be eligible to qualify or no longer qualifies at all or to the same extent, or will in the future, but prior to the Maturity Date no longer qualify at all or to the same extent (save where such non-qualification arises only as a result of any applicable limitation on the amount of such capital) as Tier 2 Capital of the Issuer or its controlling company on a solo and/or a consolidated basis;
<b>“Relevant Date”</b>	in relation to a Tranche of Notes, the date on which such payment first becomes due, except that, in relation to monies payable to the CSD in accordance with these Terms and Conditions, it means the first date on which (i) the full amount of such monies have been received by the CSD, (ii) such monies are available for payment to the holders of Beneficial Interests and (iii) notice to that effect has been duly given to such holders in accordance with the Applicable Procedures;

<b>“relevant Dealer”</b>	the Dealer or Dealers with whom the Issuer agrees or proposes to agree on the issue of any Notes;
<b>“RMB”</b>	Rand Merchant Bank, a division of FirstRand Bank Limited (Registration Number 1926/001225/06), a public company with limited liability duly incorporated in accordance with the laws of South Africa;
<b>“SARB”</b>	the South African Reserve Bank;
<b>“Senior Notes”</b>	Notes issued with the status and characteristics set out in Condition 3, as indicated in the Applicable Pricing Supplement;
<b>“SENS”</b>	the Securities Exchange News Service established by the JSE;
<b>“Series”</b>	a Tranche of Notes together with any further Tranche or Tranches of Notes which are: (i) expressed to be consolidated and form a single series; and (ii) identical in all respects (including as to listing) from date on which such consolidation is expressed to take effect, except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;
<b>“Settlement Agent”</b>	a Participant, approved by the JSE in terms of the JSE Listings Requirements to perform electronic settlement of both funds and scrip on behalf of market participants;
<b>“Solvent Reconstruction”</b>	an order is made or an effective resolution is passed for the winding-up or curatorship of the Issuer, other than under or in connection with a scheme of amalgamation or reconstruction not involving a bankruptcy or insolvency where the obligations of the Issuer in relation to the outstanding Notes are assumed by the successor entity to which all, or substantially all, of the property, assets and undertaking of the Issuer are transferred or where an arrangement with similar effect not involving bankruptcy or insolvency is implemented;
<b>“Specified Currency”</b>	in relation to each Note in a Tranche of Notes, South African Rand or, subject to all applicable laws and, in the case of Notes listed on the Interest Rate Market or the Main Board of the JSE and the JSE Listings Requirements of the JSE, such other currency as is specified in the Applicable Pricing Supplement;
<b>“Specified Denomination”</b>	in relation to each Note in a Tranche of Notes, the amount specified as such in the Applicable Pricing Supplement;
<b>“Specified Office”</b>	the address of each of the Agent, Paying Agent and Calculation Agent as contemplated in Condition 15;
<b>“Subordinated Indebtedness”</b>	for the purposes of Condition 5, any indebtedness of the Issuer, including any guarantee given by the Issuer, under which the right of payment of the person(s) entitled thereto is, or is expressed to be, or is required by any present or future agreement of the issuer to be, subordinated to the rights of all unsubordinated creditors of the issuer in the event of the dissolution, winding-up, liquidation or the commencement of business rescue proceedings in respect of the Issuer;
<b>“Subordinated Notes”</b>	Notes issued with the status and characteristics set out in Condition 5, as indicated in the Applicable Pricing Supplement;
<b>“Terms and Conditions”</b>	the terms and conditions incorporated in this section headed “Terms and Conditions of the Notes” and in accordance with which the Notes will be issued;
<b>“Tier 2 Capital”</b>	tier 2 capital of the Issuer for the purposes of the Capital Regulations;
<b>“Tier 2 Notes”</b>	Subordinated Notes, the proceeds of which are intended to qualify as Tier 2 Capital, in compliance with the then current Capital Regulations applicable to Tier 2 Capital and the Additional Conditions (if any);

<b>“Tranche”</b>	in relation to any particular Series, all notes which are identical in all respects (including as to listing);
<b>“Transfer Form”</b>	the written form for the transfer of a Note, in the form approved by the Agent, and signed by the transferor and transferee;
<b>“ZAR”</b>	the lawful currency of the Republic of South Africa, being South African Rand;
<b>“ZAR-JIBAR-SAFEX”</b>	the rate for deposits in ZAR for a period of the Designated Maturity (as indicated in the Applicable Pricing Supplement) that appears on the Reuters Screen SAFEX Page as at approximately 11h00, Johannesburg time on the relevant date; and
<b>“Zero Coupon Notes”</b>	Notes which will be offered and sold at a discount to their Nominal Amount or at par and will not bear interest, other than in the case of late payment.

## 1. ISSUE, FORM AND DENOMINATION

### 1.1. Issue

- 1.1.1. The Issuer may, at any time and from time to time (without the consent of any Noteholder), issue one or more Tranche(s) of Notes pursuant to the Programme, provided that the aggregate outstanding Nominal Amount of all of the Notes issued under the Programme from time to time (including all Notes issued under the Programme pursuant to the Previous Programme Memoranda) does not exceed the Programme Amount.
- 1.1.2. Notes will be issued in individual Tranches which, together with other Tranches, may form a Series of Notes. A Tranche of Notes will be issued on, and subject to, the Applicable Pricing Supplement.
- 1.1.3. Any Note issued, whether a Senior Note, a Subordinated Note or a Tier 2 Note, as indicated in the Applicable Pricing Supplement may be an Instalment Note, a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Interest Note, an Indexed Redemption Amount Note or a Partly Paid Note or a combination of any of the foregoing or such other type of note as may be agreed by the Issuer and the relevant Dealer, as indicated in the Applicable Pricing Supplement.
- 1.1.4. The Terms and Conditions of a Tranche of Notes are incorporated by reference into the Individual Certificate(s) (if any) representing the Notes in that Tranche. The Applicable Pricing Supplement relating to a Tranche of Notes issued in certificated form will be attached to the Individual Certificate(s) (if any) representing the Notes in that Tranche.
- 1.1.5. Notes will be issued in the Specified Denominations.
- 1.1.6. Notes will be issued in the Specified Currency and all payments will be in the Specified Currency.

### 1.2. Listed or Unlisted

- 1.2.1. A Tranche of Notes may be issued in the form of listed or unlisted registered Notes, as specified in the Applicable Pricing Supplement.
- 1.2.2. A Tranche of Notes may be listed on the Interest Rate Market or the Main Board of the JSE or on such other or further Financial Exchange(s) as may be determined by the Issuer, subject to any applicable laws. If a listing of a Tranche of Notes is sought on the Main Board of the JSE, the Issuer will be required, *inter alia*, to comply with the applicable requirements of Schedule 24 of the JSE Listings Requirements. Unlisted Notes may also be issued under the Programme. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange.

### 1.3. Form of Notes

Notes will be issued in the form of registered Notes, represented by (i) Individual Certificates registered in the name, and for the account of, the relevant Noteholder as contemplated in Condition 1.3.1 or (ii) no Individual Certificate, and held in uncertificated form in the CSD in terms of section 33 of the Financial Markets Act and registered in the name, and for the account of, the CSD's Nominee as contemplated in Condition 1.3.2. The CSD will hold the Notes subject to the Financial Markets Act and the Applicable Procedures.

#### 1.3.1. *Notes issued in certificated form*

Only Individual Certificates may be issued in certificated form. Notes represented by Individual Certificates will be registered in the Register in the name of the individual Noteholders of such Notes.

#### 1.3.2. *Notes issued in uncertificated form*

A Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE may, subject to applicable laws and Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act. Notes issued in uncertificated form will be held in the CSD. Notes issued in uncertificated form will not be represented by any certificate or

written instrument. A Note which is represented by an Individual Certificate may be replaced by uncertificated securities in terms of section 33 of the Financial Markets Act.

1.3.3. *Beneficial Interests in Notes held in the CSD*

1.3.3.1. A Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE will either be issued in uncertificated form and held in the CSD. A Tranche of unlisted Notes may also be held in the CSD in uncertificated form.

1.3.3.2. The CSD will hold Notes subject to the Financial Markets Act and the Applicable Procedures.

1.3.3.3. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee for the holders of Beneficial Interests in such Notes.

1.3.3.4. A holder of a Beneficial Interest shall only be entitled to exchange such Beneficial Interest for Notes represented by a Certificate in accordance with Condition 12.

1.3.4. *Recourse to the BESA Guarantee Fund Trust*

The holders of Notes that are not listed on the Interest Rate Market or the Main Board of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of Notes listed on the Interest Rate Market or the Main Board of the JSE and can in no way relate to a default by the Issuer of its obligations under the Notes. Any claims against the BESA Guarantee Fund Trust may only be made in accordance with the rules of the BESA Guarantee Fund Trust. Unlisted Notes are not regulated by the JSE.

**2. TITLE**

**2.1. Notes Issued In Certificated Form**

2.1.1. Each holder of Notes represented by an Individual Certificate will be named in the Register as the registered holder of such Notes.

2.1.2. Title to Notes will pass upon registration of transfer in the Register in accordance with Condition 14.2.

2.1.3. The Issuer, the Agent and the Paying Agent shall recognise a Noteholder as the sole and absolute owner of the Notes registered in that Noteholder's name in the Register (notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) and shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust, express, implied or constructive, to which any Note may be subject.

**2.2. Notes issued in uncertificated form**

2.2.1. The CSD's Nominee will be named in the Register as the registered holder of each Tranche of Notes which is issued in uncertificated form.

2.2.2. Title to Registered Notes issued in uncertificated form will pass upon registration of transfer in the Register in accordance with Condition 14.1.

2.2.3. The CSD's Nominee (as the registered holder of such Registered Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Agent and the relevant Participant as the holder of the aggregate Nominal Amount of such Registered Notes for all purposes.

**2.3. Beneficial Interests in Notes held in the CSD**

2.3.1. While a Tranche of Notes is held in the CSD, the CSD's Nominee will be named in the Register as the sole Noteholder of the Notes in that Tranche.

2.3.2. Beneficial Interests which are held by Participants will be held directly through the CSD, and the CSD will hold such Beneficial Interests, on behalf of such Participants, through the central securities accounts maintained by the CSD for such Participants.

2.3.3. Beneficial Interests which are held by clients of Participants will be held indirectly through such Participants, and such Participants will hold such Beneficial Interests, on behalf of such clients, through the securities accounts maintained by such Participants for such clients. The clients of Participants may include the holders of Beneficial Interests or their custodians. The clients of

Participants, as the holders of Beneficial Interests or as custodians for such holders, may exercise their rights in respect of the Notes held by them in the CSD only through their Participants.

2.3.4. In relation to each person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to the aggregate Nominal Amount of such Notes standing to the account of such person shall be *prima facie* proof of such Beneficial Interest. The CSD's Nominee (as the registered holder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

2.3.5. Beneficial Interests in Notes may be transferred only in accordance with the Applicable Procedures. Such transfers will not be recorded in the Register and the CSD's Nominee will continue to be reflected in the Register as the registered holder of such Notes, notwithstanding such transfers.

2.3.6. Any reference in the Terms and Conditions to the relevant Participant shall, in respect of a Beneficial Interest, be a reference to the Participant appointed to act as such by the holder of such Beneficial Interest.

### 3. STATUS OF THE SENIOR NOTES

Unless otherwise specified in the Applicable Pricing Supplement, the Senior Notes are direct, unconditional and unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and, subject to Condition 4 and save for certain debts required to be preferred by law, equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

### 4. NEGATIVE PLEDGE

4.1. Subject to Condition 4.2, after the date of this Programme Memorandum for as long as any of the Senior Notes remain Outstanding the Issuer undertakes not to, and will procure that any Material Subsidiary will not create or permit the creation of any Encumbrance over any of its present or future businesses, undertakings, assets or revenues to secure:

4.1.1. any present or future Indebtedness of the Issuer or any Material Subsidiary; or

4.1.2. any guarantee or indemnity given in respect of any present or future Indebtedness, (save for those that have been accorded preferential rights by law)

without at the same time securing the Senior Notes equally and rateably with such Indebtedness or providing such other security as may be approved by Extraordinary Resolution of the Noteholders. The Issuer shall be entitled but not obliged to form or procure the formation of a trust or trusts or appoint or procure the appointment of an agent or agents to have any such rights of security for the benefit or on behalf of such Noteholders.

4.2. The provisions set out in the preceding paragraph shall not apply to:

4.2.1. any Encumbrance created over any asset owned, acquired, developed or constructed by the relevant entity, being an Encumbrance created for the sole purpose of financing or refinancing any such asset, provided that the Indebtedness so secured shall not exceed the *bona fide* arm's length market value of such asset or the cost of such acquisition, development or construction (including all interest and other finance charges, adjustments due to changes in circumstances and other charges reasonably incidental to such cost, whether contingent or otherwise) and where such market value or cost both apply, the higher of the two;

4.2.2. any netting or set-off arrangement entered into by the Issuer or any Material Subsidiary in the ordinary course of its banking arrangements for the purposes of netting credit and debit balances;

4.2.3. any lien arising by operation of law and in the ordinary course of trading of the Issuer or any Material Subsidiary;

4.2.4. statutory liens;

4.2.5. any Encumbrance in favour of the SARB securing extensions of credit, for a duration of one Business Day, by it to the Issuer or any Material Subsidiary in relation to ordinary short-term money market activities;

- 4.2.6. any Encumbrance over or affecting any asset of any company which becomes a Material Subsidiary after the date of this Programme Memorandum, where the Encumbrance is created prior to the date on which that company became a Material Subsidiary, if:
  - 4.2.6.1. the Encumbrance was not created in contemplation of the acquisition of that company; and
  - 4.2.6.2. the principal amount secured has not increased in contemplation of or since the acquisition of that company and the principal amount secured may not be increased;
- 4.2.7. any other Encumbrance arising in the ordinary course of investment trade of the Issuer or any Material Subsidiary in relation to the sale and repurchase of securities;
- 4.2.8. any Encumbrance created over securities held in any clearing system which arises as a result of such securities being held in such clearing system as a result of the standard rules and regulations of such clearing system;
- 4.2.9. any other Encumbrance, provided that the aggregate value of all the assets subject to such other Encumbrance does not, at any time, exceed 5 per cent. of the total assets of the Issuer as reflected in the Issuer's most recent annual financial statements;
- 4.2.10. any Encumbrance of funds in a deposit account of a person or entity, securing a loan to the relevant person or entity, equal to the amount standing to the credit of such deposit accounts;
- 4.2.11. any Encumbrance created by operation of law in the ordinary course of the Issuer's or the Material Subsidiary's business over stock-in-trade, inventory, accounts receivable or deposit accounts;
- 4.2.12. any Encumbrance to secure inter-company Indebtedness incurred between the Issuer or any Material Subsidiary in compliance with the provisions of the Companies Act and the Banks Act provided that the holder of such Encumbrance may not cede or assign its rights in terms thereof to any person outside the African Bank Group;
- 4.2.13. any Encumbrance with respect to the receivables of the Issuer or a Material Subsidiary, as the case may be, which is created pursuant to any securitisation or like arrangement in accordance with normal market practice and whereby the Indebtedness is limited to the value of such receivables; or
- 4.2.14. any substitute Encumbrance created over an asset in connection with the refinancing of the Indebtedness secured over that asset (but in any such case the amount of the Indebtedness secured by such Encumbrance may not be increased).

## 5. STATUS AND CHARACTERISTICS RELATING TO SUBORDINATED NOTES AND TIER 2 NOTES

### 5.1. Status and characteristic relating to Subordinated Notes

The Subordinated Notes constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and, subject to Conditions 5.2 and 6.5 and to the Capital Regulations applicable to Subordinated Notes which are also Tier 2 Notes, rank *pari passu* among themselves and at least *pari passu* with all other Subordinated Indebtedness, save for those that have been accorded preferential rights by law and subject to Condition 4. Subject to applicable law, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound-up, the claims of the persons entitled to be paid amounts due in respect of the Subordinated Notes shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness. Accordingly, in any such event, and provided, as aforesaid, no amount shall be eligible for set-off or shall be payable to any or all the persons entitled to be paid amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, insolvency or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

### 5.2. Status and characteristic relating to Tier 2 Notes

For the avoidance of doubt, all Tier 2 Notes are Subordinated Notes and Condition 5.1 applies to Tier 2 Notes. Further, Tier 2 Notes must comply with the applicable Capital Regulations and Additional Conditions (if any) prescribed by the Registrar of Banks in respect of a particular Tranche of Subordinated Notes.

In compliance with and subject to such Capital Regulations:

- (i) Noteholders of the Tier 2 Notes shall not have the right to accelerate the payment of future scheduled payments, including principal, interest and any additional amounts, except in the case of a bankruptcy and/or liquidation of the Issuer;
- (ii) Tier 2 Notes must have a minimum maturity of five years and one day; and
- (iii) until duly enforceable legislation is in place that (1) requires the Tier 2 Note to be written off upon the occurrence of a trigger event; or (2) otherwise requires the Tier 2 Note to fully absorb loss before tax payers or ordinary depositors are exposed to loss, the Tier 2 Notes shall, at the option of the Registrar of Banks, either be written off or converted into the most subordinated form of equity of the Issuer or its controlling company, upon the occurrence of a trigger event specified in writing by the Registrar of Banks (a “**Trigger Event**”).

As a minimum requirement, the aforesaid Trigger Event shall be the earlier of (1) a decision that a write-off, without which the Issuer would become non-viable, is necessary, as determined by the Registrar of Banks; or (2) 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 Registrar of Banks.

If duly enforceable legislation contemplated in (iii) above:

- is in place at the Issue Date of the first Tranche of any Series of any Tier 2 Notes, such Tier 2 Notes shall be subject to such legislation to the extent specified in the Applicable Pricing Supplement; or
- becomes effective after the Issue Date of the first Tranche of any series of Tier 2 Notes, and as a result thereof a Regulatory Event occurs in respect of such Tier 2 Notes, the provisions of Condition 5.3 shall be of application.

The direct or indirect acquisition of a Tier 2 Note by a bank or controlling company (all as defined in the Banks Act) or by a non-bank subsidiary of a bank or controlling company, may result in an impairment to the capital of such bank or controlling company, in an amount determined in accordance with and subject to the Regulations Relating to Banks.

### 5.3. Substitution and Variation of Tier 2 Notes

Subject to the Issuer having notified the JSE at least one month before (or such other period as the JSE may then require or accept) and no objection thereto having been raised by the JSE or (if required) the JSE having provided its consent thereto, if a Regulatory Event has occurred and is continuing, the Issuer may, without any requirement for the consent or approval of the Noteholders of the Tier 2 Notes, elect to substitute all (but not only some) of the Tier 2 Notes for, or vary the terms of the Tier 2 Notes, so that they will, or will continue to qualify as Tier 2 Capital under the Capital Regulations and the Additional Conditions (if any) by giving not less than 15 days nor more than 30 days’ notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable). Upon the expiry of such notice, the Issuer shall either vary the terms of, or substitute, the Tier 2 Notes in accordance with this Condition 5.3, as the case may be.

## 6. INTEREST

### 6.1. Interest on Fixed Rate Notes

Except if otherwise specified in the Applicable Pricing Supplement, interest on Fixed Rate Notes will be paid on a six-monthly basis, on the Fixed Interest Payment Date(s). This shall be subject, in its entirety, to Condition 6.5 in respect of Tier 2 Notes.

Each Fixed Rate Note bears interest on its Nominal Amount (or, if it is a Partly Paid Note, the amount paid-up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest so specified in the Applicable Pricing Supplement payable in arrears on the Fixed Interest Payment Date(s) in each year and on the Maturity Date so specified in the Applicable Pricing Supplement if such date does not fall on a Fixed Interest Payment Date. The first payment of interest will be made on the Fixed Interest Payment Date immediately following the Interest Commencement Date. Unless otherwise specified, the interest in respect of any six-monthly period shall be calculated by dividing the applicable Fixed Rate of Interest by 2 and multiplying the result by the Nominal Amount (or, if it is a Partly Paid Note, the amount paid-up). If the first anniversary of the Interest Commencement Date is not a Fixed Interest Payment Date, and if an Initial Broken Amount is

specified in the Applicable Pricing Supplement, then the first payment of interest will amount to the Initial Broken Amount specified in the Applicable Pricing Supplement. If the Maturity Date is not a Fixed Interest Payment Date, interest from (and including) the preceding Fixed Interest Payment Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Maturity Date will amount to the Final Broken Amount.

If interest is to be paid semi-annually at six-monthly intervals, then the phrase “anniversary of the Interest Commencement Date” as used in the above paragraph shall mean the date that occurs on the same day of the month as the Interest Commencement Date, six months after the Interest Commencement Date (except that if the Interest Commencement Date falls on the last day of a month then, for the purposes of this paragraph, the anniversary shall fall on the last day of the month six months later).

If interest is required to be calculated for a period other than one year (in the case of annual interest payments) or other than six months (in the case of semi-annual interest payments), as the case may be, such interest shall be calculated on the basis of the actual number of days in such period divided by 365, unless otherwise specified in the Applicable Pricing Supplement.

## 6.2. Interest on Floating Rate Notes

### 6.2.1. General

Floating Rate Notes will bear interest:

- 6.2.1.1. at a rate equal to the floating rate under a notional interest rate swap transaction in South African Rands governed by any agreement incorporating the ISDA Definitions; or
- 6.2.1.2. at a rate equal to the reference rate appearing on the agreed screen page of a commercial quotation service; or
- 6.2.1.3. at such other rate as may be agreed between the Issuer and the relevant Dealer(s) (and as indicated in the Applicable Pricing Supplement).

### 6.2.2. Interest Payment Dates

Each Floating Rate Note bears interest on its Nominal Amount (or, if it is a Partly Paid Note, on the amount paid-up) from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrears on either:

- 6.2.2.1. the Interest Payment Date(s) specified in the Applicable Pricing Supplement (“**the Interest Payment Date**”); or
- 6.2.2.2. if no express Interest Payment Date(s) is/are specified in the Applicable Pricing Supplement, each date which occurs after a certain number of months after the preceding Interest Payment Date (such number of months as specified in the Applicable Pricing Supplement) or such other period as specified in the Applicable Pricing Supplement after the preceding Interest Payment Date, or, in the case of the first Interest Payment Date, after the Interest Commencement Date (each an “Interest Payment Date”),

subject in its entirety to Condition 6.5 in respect of Tier 2 Notes.

### 6.2.3. Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the Applicable Pricing Supplement.

#### *ISDA Determination*

Where ISDA Determination is specified in the Applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph, “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by such agent as is specified in the Applicable Pricing Supplement under an interest rate swap transaction if that agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- 6.2.3.1. the Floating Rate Option is as specified in the Applicable Pricing Supplement;

6.2.3.2. the Designated Maturity is the period specified in the Applicable Pricing Supplement;  
and

6.2.3.3. the relevant Reset Date is either:

6.2.3.3.1. if the applicable Floating Rate Option is based on ZAR-JIBAR-SAFEX, on the first day of that Interest Period; or

6.2.3.3.2. in any other case, as specified in the Applicable Pricing Supplement.

For the purposes of this sub-paragraph “Floating Rate, Floating Rate Option, Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

When this sub-paragraph (headed “ISDA Determination”) applies, in respect of each relevant Interest Period, such agent as is specified in the Applicable Pricing Supplement will be deemed to have discharged its obligations under Condition 6.2.5 (headed “Determination of Rate of Interest and Calculation of Interest Amount”) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph.

*Screen Rate Determination*

6.2.3.4. Where Screen Rate Determination is specified in the Applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, save as provided below, be either:

6.2.3.4.1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or

6.2.3.4.2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.00005 being rounded upwards) of the offered quotations,

for the Reference Rate(s) which appears (or appear), as the case may be, on the Relevant Screen Page at approximately 11h00 (Johannesburg time) on the Interest Determination Date in question, plus or minus (as indicated in the Applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more such offered quotations are available on the Relevant Screen Page the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest, (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by such agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

6.2.3.5. If the Relevant Screen Page is not available or if, in the case of 6.2.3.4.1 above, no such offered quotation appears or, in the case of 6.2.3.4.2 above, fewer than three such offered quotations appear. in each case at the time specified in the preceding paragraph, the Calculation Agent shall request the principal Johannesburg office of each of the Reference Banks (as defined below) to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11h00 (Johannesburg time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.00005 being rounded upwards) of such offered quotation plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent.

If the Rate of Interest cannot be determined by applying the provisions of 6.2.3.4 and 6.2.3.5 above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.00005 being rounded upwards) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks offered, at approximately 11h00 (Johannesburg time) on the relevant Interest Determination Date, in respect of deposits in an amount approximately equal to the Nominal Amount of the Notes of the relevant Series, for a period equal to that which would have been used for the Reference Rate, to prime banks in the Johannesburg inter-bank market plus or minus (as appropriate) the Margin (if any). If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest for the relevant Interest Period

will be determined by the Calculation Agent as the arithmetic mean (rounded as provided above) of the rates for deposits in an amount approximately equal to the Nominal Amount of the Notes of the relevant Series, for a period equal to that which would have been used for the Reference Rate, quoted at approximately 11h00 Johannesburg time on the relevant Interest Determination Date, by four leading banks in Johannesburg (selected by the Calculation Agent and approved by the Issuer) plus or minus (as appropriate) the Margin (if any). If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

“**Reference Banks**” means four leading banks in the South African inter-bank market selected by the Calculation Agent and approved by the Issuer.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Applicable Pricing Supplement as being other than the ZAR-JIBAR-SAFEX rate, the Rate of Interest in respect of such Notes will be determined, in the manner provided above, or as may be provided in the Applicable Pricing Supplement.

#### 6.2.4. *Minimum and/or Maximum Rate of Interest*

If the Applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

#### 6.2.5. *Determination of Rate of Interest and Calculation of Interest Amount*

The Calculation Agent will, in the case of Floating Rate Notes, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the amount of interest payable in respect of each Specified Denomination (each an “Interest Amount”) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Specified Denomination, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest cent, half a cent being rounded upwards.

“**Day Count Fraction**” means, in respect of the calculation of the Interest Amount for any Interest Period:

6.2.5.1. if “Actual 365” is specified in the Applicable Pricing Supplement, the actual number of elapsed days in the Interest Period divided by 365; or

6.2.5.2. such other calculation method as is specified in the Applicable Pricing Supplement.

#### 6.2.6. *Notification of Rate of Interest and Interest Amount*

The Calculation Agent (or such other agent as is specified in the Applicable Pricing Supplement) will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Agent (if the Agent is not the Calculation Agent), the CSD and any Financial Exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to the Noteholders is to be published in accordance with Condition 16, as soon as possible after their determination but not later than the fourth Business Day (as defined in Condition 6.7) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer, the Agent (if the Agent is not the Calculation Agent), the CSD and each Financial Exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 16.

#### 6.2.7. *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this subparagraph 6.2, by the Calculation Agent shall, in the absence of wilful deceit, bad faith or

manifest error, be binding on the Issuer, the Agent, the Paying Agent, the Calculation Agent and all Noteholders, and no liability to the Issuer, or the Noteholders shall attach to the Agent, the Paying Agent or Calculation Agent, as the case may be, in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### 6.3. **Indexed Notes**

In the case of Indexed Notes, if the Rate of Interest or Interest Amount is to be determined by reference to an index and/or a formula, such rate or amount payable shall be determined in the manner specified in the Applicable Pricing Supplement.

### 6.4. **Partly Paid Notes and Instalment Notes**

6.4.1. In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue on the paid-up Nominal Amount of such Notes or otherwise as specified in the Applicable Pricing Supplement.

6.4.2. In the case of Instalment Notes, interest will accrue on the amount outstanding on the relevant Note from time to time and otherwise as specified in the Applicable Pricing Supplement or otherwise.

### 6.5. **Deferral of principal and interest in respect of Tier 2 Notes**

If so set out in the Applicable Pricing Supplement, the Issuer may have the right to defer the due date for payment of capital and/or interest in relation to Tier 2 Notes and the Issuer may have the right to elect not to pay (or waive) interest in relation to Tier 2 Notes.

### 6.6. **Accrual of Interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date of its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will accrue at the SAFEX Daily Call Rate (to be found on the Reuters Screen SAFEY page as at approximately 11h00 Johannesburg time on the presentation date) until whichever is the earlier of:

6.6.1. the date on which all amounts due in respect of such Note have been paid; and

6.6.2. the date on which the full amount of the monies payable has been received by the CSD and/or the CSD Participants and notice to that effect has been given to Noteholders in accordance with Condition 16.

In the event that the SAFEX Daily Call Rate is not ascertainable from the Relevant Screen Page at the time contemplated above, the Calculation Agent shall follow the procedure contemplated in the subparagraph above headed "Screen Rate Determination" to ascertain a rate.

### 6.7. **Business Day Convention**

If any Interest Payment Date (or other date) which is specified in the Applicable Pricing Supplement to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

6.7.1. the Floating Rate Business Day Convention, such Interest Payment Date (or other date) shall in any case where Interest Periods are specified in accordance with Condition 6.2.2 ("**Interest Payment Dates**"), be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event: (i) such Interest Payment Date (or other date) shall be brought forward to the first preceding Business Day and (ii) and each subsequent Interest Payment Date (or other date) shall be the last Business Day in the month which falls after the number of months or other period specified as the Interest Period in the Applicable Pricing Supplement after the preceding applicable Interest Payment Date (or other date) has occurred; or

6.7.2. the Following Business Day Convention, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day; or

6.7.3. the Modified Following Business Day Convention, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other such date) shall be brought forward to the first preceding Business Day; or

6.7.4. the Preceding Business Day Convention, such Interest Payment Date (or other date) shall be brought forward to the first preceding Business Day.

## 7. PAYMENTS

### 7.1. General

All payments of all amounts (whether in respect of principal, interest or otherwise) due and payable in respect of any Notes shall be made by the Issuer (where the Issuer itself acts as Paying Agent) or the Paying Agent on behalf of the Issuer (where the Issuer has appointed a third party to act as a Payment Agent), as the case may be, on the terms and conditions of an agency agreement (if any) and this Condition 7. All references in this Condition 7 to “*Paying Agent*” shall be construed as references to the Issuer (where the Issuer itself acts as Paying Agent) or the Payment Agent on behalf of the Issuer (where the Issuer has appointed a third party entity to act as Paying Agent), as the case may be.

If so set out in the Applicable Pricing Supplement, the Issuer may have the right to defer the due date for payment of capital and/or interest in relation to Tier 2 Notes and the Issuer may have the right to elect not to pay (or waive) interest in relation to Tier 2 Notes.

### 7.2. Notes Issued in Uncertificated Form

7.2.1. Payments of principal and/or interest in respect of uncertificated Notes will be made to the CSD (to the bank account of the CSD’s Nominee) and/or the Participants, as shown in the Register on the Last Day to Register, and the Issuer will be discharged by proper payment to the CSD and/or the Participants, in respect of each amount so paid.

7.2.2. Following payment to the CSD’s Nominee of amounts due and payable in respect of Notes which are held in the CSD, relevant funds will be transferred by the CSD’s Nominee, *via* the Participant, to the holders of the beneficial interest in such Notes.

7.2.3. Each of the persons shown in the records of the CSD and the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for such person’s share of each payment so made by the Issuer to the registered holder of such uncertificated Notes .

7.2.4. Neither the Paying Agent nor the Issuer will have any responsibility or liability for any aspect of the records relating to, or payment made on account of, beneficial interest or for maintaining, supervising or reviewing any records relating to beneficial interest.

7.2.5. Payment of amounts due and payable in respect of beneficial interest in Notes will be recorded by the CSD’s Nominee as the registered holder of such Notes, distinguishing between interest and principal, and proof of such records and payment by the CSD’s Nominee, or the CSD, as the case may be, as the registered Noteholder of such Note, will be *prima facie* proof of such payment.

### 7.3. Notes Issued in Certificated Form

7.3.1. Payments of principal and/or interest on an Individual Certificate shall be made to the registered holder of such Note, as set forth in the Register on the close of business on the Last Day to Register (as specified in the Applicable Pricing Supplement). Such payments will be made to the bank account of the person named as the registered Noteholder of such Notes in the Register or, in the case of joint registered Noteholders, according to the method referred to in Condition 7.4 below.

7.3.2. In addition to the above, in the case of a final redemption payment, the holder of the Individual Certificate shall be required to surrender such Individual Certificate in accordance with Condition 7.5.

### 7.4. Method of Payment

Payments will be made in the Specified Denomination by credit or transfer, by means of electronic settlement, to the Noteholder.

Payments will be subject in all cases to (i) any fiscal or other laws, directives and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of FATCA or otherwise imposed pursuant to Sections 1471 through 1474 of FATCA, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

If the Issuer is prevented or restricted directly or indirectly from making any payment by electronic funds transfer in accordance with the preceding paragraph (whether by reason of strike, lockout, fire, explosion, floods, riot, war, accident, act of God, embargo, legislation, shortage of or breakdown in facilities, civil commotion, unrest or disturbances, cessation of labour, Government interference or control or any other cause or contingency beyond the control of the Issuer), the Issuer shall make such payment by cheque marked “*not transferable*” (or by such number of cheques as may be required in accordance with applicable banking law and practice to make payment of any such amounts). Such payments by cheque shall be sent by post to the address of the Noteholder as set forth in the Register or, in the case of joint Noteholders, the address set forth in the Register of that one of them who is first named in the Register in respect of that Note.

Each such cheque shall be made payable to the relevant Noteholder or, in the case of joint Noteholders, the first one of them named in the Register. Cheques may be posted by ordinary post, provided that neither the Issuer, nor the Paying Agent shall be responsible for any loss in transmission and the postal authorities shall be deemed to be the agent of the Noteholders for the purposes of all cheques posted in terms of this Condition 7.4.

In the case of joint Noteholders, payment by electronic funds transfer will be made to the account of the Noteholder first named in the Register. Payment by electronic transfer to the Noteholder first named in the Register shall discharge the Issuer of its relevant payment obligations under the Notes, notwithstanding any notice (express or otherwise) which the Issuer and/or the Agent and/or the Paying Agent may have of the right, title, interest or claim of any other person to or in any such Notes.

Neither the Issuer nor the Paying Agent shall be responsible for the loss and transmission of any such funds, and payment of any amount into the bank accounts referred to above, in accordance with this Condition 7, shall be satisfaction *pro tanto*, to the extent of such amount, of the Issuer’s obligations to the Noteholder under the relevant Registered Notes and the applicable Terms and Conditions.

#### **7.5. Presentation of Notes and Surrender of Individual Certificates**

Payment of principal in respect of any Registered Note(s) which is/are represented by Individual Certificate(s) shall be made to the Noteholder(s) of such Registered Note(s) only if, prior to the date on which the relevant Tranche of Notes are redeemed, such Individual Certificate(s) shall have been surrendered to the Agent at its Specified Office.

If the relevant Individual Certificate is not surrendered to the Agent at its Specified Office as stated above, the amount of principal payable to the Noteholder of the Registered Note(s) represented by that Individual Certificate shall be retained by the Paying Agent for such Noteholder, at the latter’s risk, until such Individual Certificate shall have been surrendered to the Agent at its Specified Office, and such Noteholder will not be entitled to any interest and/or other payments in respect of any delay in payment occasioned as a result of such failure to surrender such Individual Certificate.

No payment in respect of the final redemption of a Registered Note shall be made until at least 7 days prior to the date on which the certificate in respect of the Notes to be redeemed has been surrendered to the Paying Agent.

Holders of uncertificated Notes are not required to present and/or surrender any documents of title.

#### **7.6. Payment Day**

If the date for payment of any amount in respect of any Note is not a Business Day and is not subject to adjustment in accordance with a Business Day Convention, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, unless otherwise specified in the Applicable Pricing Supplement, “Payment Day” means any day which is a Business Day.

#### **7.7. Interpretation of Principal and Interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

7.7.1. any additional amounts which may be payable with respect to principal under Condition 9;

7.7.2. the Final Redemption Amount of the Notes;

7.7.3. the Early Redemption Amount of the Notes;

7.7.4. the Optional Redemption Amount(s) (if any) of the Notes;

7.7.5. in relation to Instalment Notes, the Instalment Amounts;

7.7.6. in relation to Zero Coupon Notes, the Amortised Face Amount (as defined under Condition 8 (“**Early Redemption Amount**”)); and

7.7.7. any premium and any other amounts which may be payable under or in respect of the Notes, but excluding, for the avoidance of doubt, interest.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

## **8. REDEMPTION AND PURCHASE**

### **8.1. At maturity**

Unless previously redeemed or purchased and cancelled as specified below (and subject to Condition 8.7 or as otherwise specified in the Terms and Conditions), each Note will be redeemed by the Issuer on the Maturity Date at its Final Redemption Amount specified in, or determined in the manner specified in, the Applicable Pricing Supplement.

### **8.2. Redemption for tax reasons**

Subject to Condition 8.7, Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes or Indexed Notes) or on any Interest Payment Date (in the case of Floating Rate Notes or Indexed Notes), on giving not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable), if:

8.2.1. on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 9 as a result of any change in or amendment to, the laws or regulations of the Republic of South Africa or any political subdivision of an authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and

8.2.2. such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts was a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent and the Paying Agent a certificate signed by two authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed for tax reasons pursuant to this sub-paragraph will be redeemed at their Early Redemption Amount referred to in the paragraph headed “Early Redemption Amounts” below, together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **8.3. Redemption of Subordinated Notes for Regulatory Reasons**

Subject to Condition 8.7, if so specified in the Applicable Pricing Supplement, a Series of Subordinated Notes may be redeemed at the option of the Issuer in whole or in part, on any Interest Payment Date (if such Note is either a Floating Rate Note or an Index-Linked Note) or at any time (if such Note is neither a Floating Rate Note nor an Index-Linked Note), on giving not less than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 8.7) (together with interest accrued to the date fixed for redemption), if a Regulatory Event occurs and is continuing. In the case of partial redemption of Notes the provisions of Condition 8.4 relating to the procedure for partial redemption shall apply to such a partial redemption for regulatory reasons under this Condition 8.3.

Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Agent and the Paying Agent (i) a certificate signed by two duly authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and

(ii) unless the Registrar of Banks has confirmed to the Issuer that the proceeds of the issue of the Relevant Notes are not eligible to qualify as Tier 2 Capital of the Issuer or the Controlling Company on a solo and/or a consolidated basis, an opinion of independent advisers of recognised standing to the effect that a Regulatory Event has occurred.

The occurrence of a Regulatory Event shall also give rise to the substitution and variation right of the Issuer referred to in Condition 5.3.

#### 8.4. Redemption at the Option of the Issuer

Subject to Condition 8.7, if the Issuer is specified in the Applicable Pricing Supplement as having an option to redeem, the Issuer may, having given:

8.4.1. not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16; and

8.4.2. not less than 7 days before giving the notice referred in 8.4.1 above, notice to the Agent and Paying Agent;

(both of which notices shall be irrevocable) redeem all or some of the Notes then Outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the Applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

Any such redemption must be of a Nominal Amount not less than the Minimum Redemption Amount and not more than the Higher Redemption Amount, both as indicated in the Applicable Pricing Supplement.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by Individual Certificates, and in accordance with the Applicable Procedures in the case of Redeemed Notes which are uncertificated, and in each case not more than 30 days prior to the date fixed for redemption (such date of selection being referred to below as the "Selection Date").

In the case of Redeemed Notes represented by Individual Certificates, a list of the serial numbers of such Certificates will be published in accordance with Condition 16 not less than 15 days prior to the date fixed for redemption. The aggregate Nominal Amount of Redeemed Notes represented by Individual Certificates shall bear the same proportion to the aggregate Nominal Amount of all Redeemed Notes as the aggregate Nominal Amount of Notes represented by Individual Certificates bears to the aggregate Nominal Amount of the Notes Outstanding, in each case on the Selection Date, provided that such first mentioned Nominal Amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate Nominal Amount of Redeemed Notes which are uncertificated shall be equal to the balance of the Redeemed Notes. No exchange of beneficial interest in the relevant uncertificated Notes will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph and the notice to that effect shall be given by the Issuer to the Noteholders in the notice to Noteholders contemplated in 8.4.1 above.

Holders of Redeemed Notes shall surrender the Individual Certificates, if any, representing the Notes in accordance with the provisions of the notice given to them by the Issuer as contemplated in 8.4.1 above. Where only a portion of the Notes represented by such Certificates are redeemed, the Agent shall deliver new Individual Certificates to such Noteholders in respect of the balance of the Notes.

#### 8.5. Redemption at the Option of Noteholders of Senior Notes

If Noteholders of Senior Notes ("**Senior Noteholders**") are specified in the Applicable Pricing Supplement as having an option to redeem any Notes, such Noteholders may cause the redemption of the relevant Notes by delivering to the Agent and the Issuer in accordance with Condition 16, a duly executed notice ("**Put Notice**"), at least 15 days, but not more than 30 days, prior to the applicable Optional Redemption Date.

The redemption by the Senior Noteholders of uncertificated Notes shall take place in accordance with the Applicable Procedures.

Where a Noteholder redeems Notes represented by an Individual Certificate, such Noteholder shall surrender and deliver the Individual Certificate to the Agent for cancellation by attaching it to the Put

Notice. A holder of an Individual Certificate shall, in that holder's put notice, specify a bank account into which the Redemption Payment Amount is to be paid.

The Issuer shall proceed to redeem such Notes (in whole but not in part) in accordance with the terms of the Applicable Pricing Supplement, at the Optional Redemption Amount and on the Optional Redemption Date, together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

The delivery of Put Notices shall be required to take place during normal office hours of the Agent and the Issuer. Put Notices shall be available from the Specified Office of the Agent and the registered office of the Issuer.

Any Put Notice given by a holder of any Senior Note pursuant to this paragraph shall be irrevocable except where after giving the notice but prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such Noteholder, at its option, may elect by notice to the Issuer and the Agent to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note forthwith due and payable pursuant to Conditions 8.6 and 8.11.

#### **8.6. Early Redemption upon the occurrence of an Event of Default**

Upon the occurrence of an Event of Default and receipt by the Issuer of a written notice declaring Notes held by the relevant Noteholder to be forthwith due and payable in accordance with Condition 11, such Notes shall, subject to Condition 8.7 and Condition 11 (and subject to the applicable Capital Regulations and Additional Conditions (if any) in respect of Tier 2 Notes), become forthwith due and payable at the Early Redemption Amount, together (if appropriate) with interest accrued to (but excluding) the date of payment.

#### **8.7. Restriction on Redemption of Tier 2 Notes**

Subject to the applicable Capital Regulations, Subordinated Notes that are also Tier 2 Notes may have a minimum period to Maturity Date determined in accordance with the Capital Regulations relating to such Tier 2 Notes as set out in the Applicable Pricing Supplement. Notwithstanding the foregoing provisions of this Condition, for so long as the applicable Capital Regulations so require, Tier 2 Notes may be redeemed, or purchased and cancelled by the Issuer, prior to the Maturity Date, only at the option of the Issuer and with the prior written approval of the Registrar of Banks and in accordance with the Additional Conditions (if any) approved by the Registrar of Banks, even where an Event of Default has occurred. Further, in relation to Tier 2 Notes, any such redemption shall be further subject to the Capital Regulations.

#### **8.8. Early Redemption Amounts**

For the purpose of Conditions 8.2, 8.3 and 8.6 above and Condition 11 (and otherwise as stated herein), the Notes will be redeemed at the Early Redemption Amount calculated as follows:

8.8.1. in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or

8.8.2. in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with either a Final Redemption Amount which is or may be less or greater than the Issue Price, to be determined in the manner specified in the Applicable Pricing Supplement or, if no such amount or manner is so specified in the Applicable Pricing Supplement, at their Nominal Amount: or

8.8.3. in the case of Zero Coupon Notes, at an amount (the "Amortised Face Amount") equal to the sum of:

8.8.3.1. the Reference Price; and

8.8.3.2. the product of the Accrual Yield (compounded semi-annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or, as the case may be, the date upon which such Note becomes due and repayable, or such other amount as provided for in the Applicable Pricing Supplement.

Where such calculation is to be made for a period which is not a whole number of years, it shall be calculated on the basis of actual days elapsed divided by 365, or such other calculation basis as may be specified in the Applicable Pricing Supplement.

#### **8.9. Instalment Notes**

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph 8.7 above (“**Early Redemption Amounts**”).

#### **8.10. Partly Paid Notes**

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the Applicable Pricing Supplement.

#### **8.11. Purchases**

Subject to Condition 8.7, the Issuer may at any time purchase Notes at any price in the open market or otherwise. In the event of the Issuer purchasing Notes, such Notes may (subject to restrictions of any applicable law) be held, resold or, at the option of the Issuer, cancelled.

#### **8.12. Cancellation**

All Notes which are redeemed will forthwith be cancelled. All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph 8.11 above shall be forwarded to the Agent for cancellation. Where only a portion of Notes represented by an Individual Certificate are cancelled, the Agent shall deliver an Individual Certificate to such Noteholder in respect of the balance of the Notes.

#### **8.13. Late Payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note, pursuant to the paragraphs under Condition 7 above headed “Method of Payment”, “Presentation of Notes”, “Payment Day”, or “Interpretation of Principal and Interest” or upon it becoming due and repayable as provided in Condition 11, is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph 8.7 under this Condition headed “Early Redemption Amounts”, (sub-paragraph 8.8.3) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- 8.13.1. the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- 8.13.2. 5 days after the date on which the full amount of the monies payable has been received by the CSD and notice to that effect has been given to the Noteholder in accordance with Condition 16.

#### **8.14. Applicable Procedures**

The redemption and partial redemption of Beneficial Interests shall take place in accordance with the Applicable Procedures and the Financial Markets Act.

### **9. TAXATION**

As at the date of issue of the Programme Memorandum, all payments of principal and interest in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of the government of South Africa or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction except that no such additional amounts shall be payable with respect to any Note:

- 9.1. held by or on behalf of a Noteholder, who is liable for such taxes or duties in respect of such Note by reason of his having some connection with the Republic of South Africa other than the mere holding of such Note or the receipt of principal or interest in respect thereof; or
- 9.2. held by or on behalf of a Noteholder who would not be liable or subject to the withholding or deduction by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority (the effect of which is not to require the disclosure of the identity of the relevant Noteholder); or

- 9.3. where (in the case of any payment of principal or interest which is conditional on surrender of the relevant Individual Certificate in accordance with these Terms and Conditions) the relevant Individual Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to an additional amount on presenting the Individual Certificate for payment on such thirtieth day; or
- 9.4. if such withholding or deduction arises through the exercise by revenue authorities of special powers in respect of tax defaulters; or
- 9.5. where such withholding or deduction is in respect of taxes levied or imposed on interest or principal payments only by virtue of the inclusion of such payments in the taxable income (as defined in section 1 of the Income Tax Act) or taxable capital gain (as defined in paragraph 1 of Schedule 8 to the Income Tax Act) of any Noteholder; or
- 9.6. where the Noteholder is entitled to claim a tax reduction, credit or similar benefit in respect of such withholding or deduction in terms of the Noteholder's domestic tax laws or applicable double tax treaty or South African tax legislation, and such tax reduction, credit or similar benefit is actually granted to the Noteholder.

The Issuer is not liable for or otherwise obliged to pay any Taxes that may arise as a result of the ownership, transfer or redemption of any Note.

Notwithstanding anything to the contrary in this Condition 9, none of the Issuer, any Paying Agent or any other Person shall be required to pay any additional amounts with respect to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of FATCA or otherwise imposed pursuant to Sections 1471 through 1474 of FATCA, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

## 10. PRESCRIPTION

The Notes will become void unless presented for payment of principal and interest within a period of three years after the Relevant Date.

## 11. EVENTS OF DEFAULT

### Senior Notes

An Event of Default in relation to Senior Notes shall arise if any one or more of the following events shall have occurred and be continuing:

- 11.1. the Issuer fails to pay any interest or principal in respect of any of the Senior Notes on due date for payment and the failure to pay continues for more than ten days; or
- 11.2. the Issuer fails to perform or observe any of its other obligations under the Notes and such failure has continued for a period of ten days following the service on the Issuer of a written notice requiring the same to be remedied. (For these purposes, a failure to perform or observe an obligation shall be deemed to be remediable notwithstanding that the failure results from not doing an act or thing by a particular time.); or
- 11.3. the Issuer or any Material Subsidiary defaults in the payment of the principal or interest or any obligations in respect of Borrowed Money of, or assumed or guaranteed by, the Issuer or any Material Subsidiary (i) when and as the same shall become due and payable or where notice has been given to the Issuer or any Material Subsidiary, as the case may be, of the default and if such default shall have continued for more than the notice period (if any) applicable thereto and the time for payment of such interest or principal has not been effectively extended; or (ii) when and if any such obligations of, or assumed or guaranteed by, the Issuer or any Material Subsidiary shall have become repayable before the due date thereof as a result of acceleration of maturity by reason of the occurrence of any event of default thereunder; or
- 11.4. any action, condition or thing including the obtaining of any consent, licence, approval or authorisation now or hereafter necessary to enable the Issuer to comply with its obligations under the Programme is not taken, fulfilled or done, or any such consent, licence, approval or authorisation shall be revoked, modified, withdrawn or withheld or shall cease to remain in full force and effect resulting in the Issuer being unable to perform any of its respective payment or other obligations in terms of any Notes or the Programme; or

- 11.5. the Issuer or any Material Subsidiary is placed in liquidation, dissolved or is wound-up, whether provisionally or finally or is placed under any business rescue proceedings, whether provisionally or finally or any process similar thereto, and if such order or process is on a provisional basis, it is not dismissed or withdrawn within 30 days thereof, or an order is made or an effective resolution is passed for the winding-up, dissolution or liquidation of the Issuer or any Material Subsidiary save for the purposes of a merger, amalgamation, consolidation, reconstruction or reorganisation within the African Bank Group on terms approved by an Extraordinary Resolution of Noteholders; or
- 11.6. any mortgage, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary in respect of Borrowed Money of the Issuer or any Material Subsidiary becomes enforceable and the holder thereof takes any steps to enforce it (unless such enforcement is discharged within 45 days; or
- 11.7. the Issuer or any Material Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business, other than in terms of a merger, amalgamation, consolidation, reconstruction or reorganisation within the African Bank Group on terms approved by an Extraordinary Resolution of the Noteholders, or if the Issuer or any Material Subsidiary stops or threatens to stop payment of, or is unable to, or admits to being unable to pay its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts (or any class of its debts); or
- 11.8. any step is taken by or under any authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or any of the Issuer or any Material Subsidiary or any of the securities issued by the Issuer or any Material Subsidiary or a material part of the assets of the Issuer or any Material Subsidiary; or
- 11.9. the Issuer or any Material Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable compromise with creditors, liquidation, winding-up or insolvency or other similar laws (including business rescue proceedings) or compromises, or attempts to compromise, with its creditors generally (or any significant class of creditors) or any meeting of creditors is convened by the Issuer or any Material Subsidiary to consider a proposal for an arrangement of compromise with its creditors generally (or any significant class of its creditors); or
- 11.10. if proceedings are initiated against the Issuer or any Material Subsidiary such that a person takes possession of the whole or a material part of the undertaking or assets of any of them, or an execution or attachment or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of any of them and such is not discharged within 30 days.

If any one or more of the Events of Default shall have occurred and be continuing, then any Senior Noteholder may, by written notice to the Issuer at the registered office of the Issuer, effective upon the date of receipt thereof by the Issuer, declare the Senior Note held by that Senior Noteholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount together with accrued interest (if any) to the date of payment, or as specified in the Applicable Pricing Supplement, provided that although an amount may be due it will not be payable if, and for so long as, the Issuer is, by reason of any law or regulation of South Africa or any order of a court of competent jurisdiction, prohibited from making such payment and provided further that interest shall continue to accrue to the date of payment unless such accrual and/or payment of interest is contrary to any law or regulation of South Africa or any order of a court of competent jurisdiction.

**Events of Default relating to the Subordinated Notes (including Tier 2 Notes)**

- (i) If the Issuer defaults for more than ten days in the payment on the due date of principal or interest in respect of any Subordinated Note (including Tier 2 Notes), the holder of such Subordinated Note may, subject as provided below, at its discretion and without further notice, 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.
- (ii) If an order is made or an effective resolution is passed for the winding-up of the Issuer (other than pursuant to a Solvent Reconstruction), a Subordinated Note (including Tier 2 Notes) shall, upon written notice from the holder of such Subordinated Note to the Issuer and delivered to the Issuer, be declared immediately due and payable (subject to the Capital Regulations), whereupon it shall become immediately due and payable at its nominal amount together with accrued interest (if any) without further action or formality.

- (iii) Without prejudice to paragraphs (i) or (ii) above, if the Issuer breaches any of its obligations under the Subordinated Notes, including Tier 2 Notes, (other than any obligation in respect of the payment of principal or interest on such Subordinated Notes) then each Noteholder of the Subordinated Notes may at its discretion and without further notice, bring such proceedings as it may think fit to enforce the obligation in question provided that the Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sum representing or measured by reference to principal or interest on such Series of Subordinated Notes earlier than the same would otherwise have been payable by it.
- (iv) The rights of the holder of a Tier 2 Note shall be subject to any condition which requires such Tier 2 Note, to either be written off or converted into the most subordinated form of equity upon the occurrence of certain trigger events in accordance with the applicable Capital Regulations in respect of Tier 2 Notes (and subject further to the Additional Conditions, if any, prescribed by the Registrar of Banks in respect of that Tranche of Tier 2 Notes).

## **12. EXCHANGE OF BENEFICIAL INTERESTS AND REPLACEMENT OF INDIVIDUAL CERTIFICATES**

### **12.1. Exchange of Beneficial Interests**

12.1.1. The holder of a Beneficial Interest in Notes may, in terms of the Applicable Procedures and subject to the Financial Markets Act by written notice to the holder's nominated Participant (or, if such holder is a Participant, the CSD), request that such Beneficial Interest be exchanged for Notes in definitive form represented by an Individual Certificate (the "Exchange Notice"). The Exchange Notice shall specify (i) the name, address and bank account details of the holder of the Beneficial Interest and (ii) the day on which such Beneficial Interest is to be exchanged for an Individual Certificate; provided that such day shall be a Business Day and shall fall not less than 30 (thirty) days after the day on which such Exchange Notice is given.

12.1.2. The holder's nominated Participant will, following receipt of the Exchange Notice, through the CSD, notify the Agent that it is required to exchange such Beneficial Interest for Notes represented by an Individual Certificate. The Agent will, as soon as is practicable but within 14 (fourteen) days after receiving such notice, in accordance with the Applicable Procedures, procure that an Individual Certificate is prepared, authenticated and made available for delivery, on a Business Day falling within the aforementioned 14 (fourteen) day period, to the holder of the Beneficial Interest at the Specified Office of the Agent; provided that joint holders of a Beneficial Interest shall be entitled to receive only 1 (one) Individual Certificate in respect of that joint holding, and the delivery to 1 (one) of those joint holders shall be delivery to all of them.

12.1.3. In the case of the exchange of a Beneficial Interest in Notes issued in uncertificated form:

12.1.3.1. the CSD's Nominee shall, prior to the exchange date, surrender (through the CSD system) such uncertificated Notes to the Agent at its Specified Office;

12.1.3.2. the Agent will obtain the release of such uncertificated Notes from the CSD in accordance with the Applicable Procedures;

12.1.3.3. an Individual Certificate shall, in relation to a Beneficial Interest in any number of Notes issued in uncertificated form of a particular aggregate Nominal Amount standing to the account of the holder thereof, represent that number of Notes of that aggregate Nominal Amount and shall otherwise be in such form as may be agreed between the Issuer and the Agent; provided that if such aggregate Nominal Amount is equivalent to a fraction of the Specified Denomination or a fraction of any multiple thereof, such Individual Certificate shall be issued in accordance with, and be governed by, the Applicable Procedures.

### **12.2. Replacement**

If any Individual Certificate is worn out, mutilated, defaced, stolen, destroyed or lost it may be replaced at the Specified Office of the Agent, on payment by the claimant of such costs and expenses as may be incurred in connection therewith and the provision of such indemnity as the Issuer and the Agent may reasonably require. Mutilated or defaced Individual Certificates must be surrendered at the Specified Office of the Agent before replacements will be issued.

### **12.3. Death and sequestration or liquidation of Noteholder**

Any person becoming entitled to Registered Notes in consequence of the death, sequestration or liquidation of the holder of such Notes may, upon producing evidence to the satisfaction of the Issuer that he holds the position in respect of which he proposes to act under this Condition 12.3, or of his title as the Issuer and the Agent shall require, be registered as the holder of such Notes or, subject to the Applicable Procedures, this Condition 12.3 and Condition 14.2, may transfer such Notes. The Issuer and (if applicable) the CSD and the relevant Participant shall be entitled to retain any amount payable upon the Notes to which any person is so entitled until such person shall be registered as aforesaid or shall duly transfer the Notes.

### **12.4. Costs**

The costs and expenses of the printing, issue and delivery of each Individual Certificate and all taxes and governmental charges that may be imposed in relation to such Individual Certificate and/or the printing, issue and delivery of such Individual Certificate shall be borne by the holder of the Notes represented by that Individual Certificate. Separate costs and expenses relating to the provision of Individual Certificates and/or the transfer of Notes may be levied by other persons, such as a Participant, under the Applicable Procedures, and such costs and expenses shall not be borne by the Issuer. The costs and expenses of the delivery of Individual Certificates by a method other than ordinary post (if any) and, if the Issuer shall so require, all taxes or governmental charges or insurance charges that may be imposed in relation to such mode of delivery shall be borne by the Noteholder.

## **13. REGISTER**

### **13.1. The Register of Noteholders:**

- 13.1.1. shall be kept at the Specified Office of the Agent or such other person as may be appointed for the time being by the Issuer to maintain the Register;
- 13.1.2. shall contain the names, addresses and bank account numbers of the registered Noteholders;
- 13.1.3. shall show the total Nominal Amount of the Notes held by Noteholders;
- 13.1.4. shall show the dates upon which each of the Noteholders was registered as such;
- 13.1.5. shall show the serial numbers of the Individual Certificates and the dates of issue thereof;
- 13.1.6. shall be open for inspection at all reasonable times during business hours on Business Days by any Noteholder or any person authorised in writing by a Noteholder; and
- 13.1.7. shall be closed during the Books Closed Period.

13.2. The Agent shall alter the Register in respect of any change of name, address or account number of any of the Noteholders of which it is notified.

13.3. Except as provided for in these Terms and Conditions or as required by law, in respect of Notes, the Issuer will only recognise a Noteholder as the owner of the Notes registered in that Noteholder's name as per the Register.

13.4. Except as provided for in these Terms and Conditions or as required by law, the Issuer shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Certificate may be subject.

## **14. TRANSFER OF NOTES**

### **14.1. Transfer of Beneficial Interests in Notes (including Uncertificated Notes) held in the CSD**

- 14.1.1. Beneficial Interests may be transferred only in accordance with the Applicable Procedures through the CSD.
- 14.1.2. Transfers of Beneficial Interests to and from clients of Participants occur by way of electronic book entry in the securities accounts maintained by the Participants for their clients, in accordance with the Applicable Procedures.
- 14.1.3. Transfers of Beneficial Interests among Participants occur through electronic book entry in the central securities accounts maintained by the CSD for the Participants, in accordance with the Applicable Procedures.

- 14.1.4. Transfers of Beneficial Interests in Notes will not be recorded in the Register and the CSD's Nominee will continue to be reflected in the Register as the Noteholder of such Notes notwithstanding such transfers.

**14.2. Transfer of Notes represented by Individual Certificates**

- 14.2.1. In order for any transfer of Notes represented by an Individual Certificate to be recorded in the Register, and for such transfer to be recognised by the Issuer:
- 14.2.1.1. the transfer of such Notes must be embodied in a Transfer Form;
  - 14.2.1.2. the Transfer Form must be signed by the registered Noteholder of such Notes and the transferee, or any authorised representatives of that registered Noteholder or transferee; and
  - 14.2.1.3. the Transfer Form must be delivered to the Agent at its Specified Office together with the Individual Certificate representing such Notes for cancellation.
- 14.2.2. Notes represented by an Individual Certificate may only be transferred, in whole or in part, in amounts of not less than the Specified Denomination (or any multiple thereof).
- 14.2.3. Subject to this Condition 14.2, the Agent will, within 3 Business Days of receipt by it of a valid Transfer Form (or such longer period as may be required to comply with any applicable laws and/or Applicable Procedures), record the transfer of Notes represented by an Individual Certificate (or the relevant portion of such Notes) in the Register, and authenticate and deliver to the transferee at the Agent's Specified Office or, at the risk of the transferee, send by mail to such address as the transferee may request, a new Individual Certificate in respect of the Notes transferred reflecting the outstanding Nominal Amount of the Notes transferred.
- 14.2.4. Where a Noteholder has transferred a portion only of Notes represented by an Individual Certificate, the Agent will authenticate and deliver to such Noteholder at the Agent's Specified Office or, at the risk of such Noteholder, send by mail to such address as such Noteholder may request, at the risk of such Noteholder, a new Individual Certificate representing the balance of the Notes held by such Noteholder.
- 14.2.5. The transferor of any Notes represented by an Individual Certificate will be deemed to remain the owner thereof until the transferee is registered in the Register as the holder thereof.
- 14.2.6. Before any transfer of Notes represented by an Individual Certificate is registered in the Register, all relevant transfer taxes (if any) must have been paid by the transferor and/or the transferee and such evidence must be furnished as the Issuer and the Agent may reasonably require as to the identity and title of the transferor and the transferee.
- 14.2.7. No transfer of any Notes represented by an Individual Certificate will be registered whilst the Register is closed as contemplated in Condition 13.
- 14.2.8. If a transfer of any Notes represented by an Individual Certificate is registered in the Register, the Transfer Form and cancelled Certificate will be retained by the Agent.
- 14.2.9. If a transfer is registered then the Transfer Form and cancelled Individual Certificate will be retained by the Agent.
- 14.2.10. In the event of a partial redemption of Notes under Condition 8.4 or 8.5, the Agent shall not be required in terms of Condition 8.4 or 8.5, to register the transfer of any Notes during the period beginning on the tenth day before the date of the partial redemption and ending on the date of the partial redemption (both inclusive).

**15. AGENT, PAYING AGENT AND CALCULATION AGENT**

The names of the initial Agent, Paying Agent and Calculation Agent and their initial Specified Offices are set out at the end of the Programme Memorandum. These agents act solely as the agents of the Issuer and do not assume any obligation towards or relationship of agency or trust for or with any Noteholders.

The Issuer is entitled to vary or terminate the appointment of the Agent, Paying Agent and Calculation Agent and/or appoint additional or other agents and/or approve any change in the Specified Office through which any agent acts on the terms of the Agency Agreement, provided that there will at all times be an Agent, Paying Agent and Calculation Agent with a Specified Office in such place as may be required by the Applicable Procedures.

To the extent that the Issuer acts as the Agent, Calculation Agent or Paying Agent, all references in these Terms and Conditions to:

- 15.1. any action, conduct or functions in such role shall be understood to mean that the Issuer shall perform such action, conduct or functions itself; and
- 15.2. requirements for consultation, indemnification by or of, payment by or to, delivery by or to, notice by or to, consent by or to or agreement between the Issuer and such Agent, Calculation or Paying Agent (as the case may be) shall be disregarded to the extent that the Issuer performs such role.

## 16. NOTICES

- 16.1. Subject to Condition 16.3, notices to holders of Notes shall be valid if mailed to their registered addresses appearing in the Register. Any such notice shall be deemed to have been given on the seventh day after the day on which it is mailed.
- 16.2. In addition, in the event of there being any Individual Certificates in issue, such notices shall be published, not earlier than four days after the date of posting of such notice in terms of this clause:
  - 16.2.1. in an English language daily newspaper of general circulation in South Africa; and
  - 16.2.2. for so long as the Notes are listed on the Interest Rate Market or the Main Board of the JSE, a daily newspaper of general circulation in the city in which the JSE is situated,  
and any such notices shall be deemed to have been given on the date of first publication.
- 16.3. Notwithstanding the provisions of Condition 16.1, for so long as all of the Notes in a Tranche are held in their entirety in the CSD, the notice contemplated in Condition 16.1 may be substituted with the delivery of the relevant notice to the CSD's Nominee (as the registered holder of such Notes), the Participants and the JSE for communication by them to the holders of Beneficial Interests in such Notes in accordance with the Applicable Procedures. Each such notice will be deemed to have been received by the holders of Beneficial Interests on the day of delivery of such notice to the CSD's Nominee.
- 16.4. A notice to be given by any Noteholder to the Issuer shall be in writing and given by lodging (either by hand delivery or posting by registered mail) that notice, together with a certified copy of the relevant Individual Certificate at the registered office of the Issuer.
- 16.5. For so long as any of the Notes are uncertificated, notice may be given by any holder of an uncertificated Note to the Issuer *via* the relevant Settlement Agent in accordance with the Applicable Procedures, in such manner as the Issuer and the relevant Participants may approve for this purpose.
- 16.6. Any notice to the Issuer shall be deemed to have been received by the Issuer, if delivered to the registered office of the Issuer, on the date of delivery, and if sent by registered mail, on the seventh day after the day on which it is sent. The Issuer may change its registered office upon prior written notice to Noteholders specifying such new registered office.
- 16.7. For so long as any Notes are listed on the Interest Rate Market and/or the Main Board of the JSE, all notices in respect of such JSE-Listed Notes, shall be made by way of an announcement on SENS.

## 17. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Agency Agreement contains provisions for convening meetings of the Noteholders or holders of Notes of a particular Series, as the case may be, to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes or certain provisions of the Agency Agreement, if proposed by the Issuer (but subject to Condition 5.3). A copy of those provisions for convening meetings is contained in Appendix 1 to this Programme Memorandum commencing on page 138.

Notification of meetings of Noteholders will also be published on SENS according to the requirements of the JSE from time to time.

Such meetings may be convened by the Issuer or Noteholders of a particular Series holding not less than twenty percent, in Nominal Amount of the Notes for the time being Outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in Nominal Amount of the Notes of a particular Series for the time being Outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the Nominal Amount of the Notes so held or represented, except that (again subject to Condition 5.3) at any meeting the

business of which includes the modification of certain provisions of any of the Notes (including, but not limited to, modifying the date of maturity of any of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or modifying the majority required to pass an Extraordinary Resolution), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 66.67 per cent. in Nominal Amount of the Notes for the time being Outstanding, or at any adjourned such meeting not less than 33.34 per cent., in Nominal Amount of the Notes for the time being Outstanding.

An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting.

The Issuer may, without the consent of the Noteholders, make any modification of the Terms and Conditions which is of a formal, minor or technical nature or is made to correct a manifest error to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated and the governing law in accordance with which the Notes are issued.

Subject to the foregoing, the Issuer may, with the prior sanction of an Extraordinary Resolution of Noteholders or with the prior written consent of Noteholders holding not less than 66.67 per cent. in Nominal Amount of the Notes Outstanding from time to time, amend these Terms and Conditions, provided that no such amendment shall be of any force or effect unless notice of the intention to make such amendment shall have been given to all Noteholders in terms of Condition 16.

Any amendment of these Terms and Conditions will require the approval of the JSE. For the sake of clarity, it is recorded that, the Applicable Pricing Supplement, in relation to any Tranche of Notes, may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify such Terms and Conditions for the purposes of such Tranche of Notes. The issuing of any such Applicable Pricing Supplement shall not constitute an amendment of these Terms and Conditions requiring the approval of the JSE.

Any such modification shall be binding on the Noteholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 as soon as practicable thereafter.

#### 18. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further Notes having terms and conditions the same as any of the other Notes issued under the Programme or the same in all respects save for the amount and date of the first payment of interest thereon, the Issue Price and the Issue Date, so that the further Notes shall be consolidated and form a single Series with the Outstanding Notes.

#### 19. GOVERNING LAW

The provisions of the Programme Memorandum and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of the Republic of South Africa.

#### AFRICAN BANK LIMITED

This Programme Memorandum was signed by N Nalliah on 30 May 2014. Copies of the version bearing such signature are available for inspection at the registered office of the Issuer as set out at the end of this Programme Memorandum.

\_\_\_\_\_  
Name: Nithia Nalliah  
Capacity: Director  
Who warrants his authority hereto  
Date: 30 May 2014

This Programme Memorandum was signed by L Kirkinis on 30 May 2014. Copies of the version bearing such signature are available for inspection at the registered office of the Issuer as set out at the end of this Programme Memorandum.

\_\_\_\_\_  
Name: Leon Kirkinis  
Capacity: Director  
Who warrants his authority hereto  
Date: 30 May 2014

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## **USE OF PROCEEDS**

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*Words used in this section headed “Use of Proceeds” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

The proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the Applicable Pricing Supplement.

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## CAPITALISATION AND INDEBTEDNESS

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The following table sets out African Bank's historical capitalisation as at 31 March 2014 and 30 September 2013. Prospective investors should read this information in conjunction with “*Use of Proceeds*” and the Issuer’s audited financial statements and the notes thereto which are incorporated by reference into the Programme Memorandum. Save as disclosed below, there has been no material change in the capitalisation and indebtedness of African Bank since 31 March 2014.

African Bank's Historical Capitalisation	31 March 2014	30 September 2013
	<i>Unaudited</i>	<i>Audited</i>
	<i>(in Rand millions)</i>	
Ordinary shareholder’s equity	10,407	7,801
<b>Total equity (capital and reserves)</b>	<b>10,407</b>	<b>7,801</b>
Subordinated bonds, debentures & loans	4,389	4,361
Bonds and other long-term funding	42,339	41,990
Short-term funding	7,188	7,634
Amounts owing to holding company and fellow subsidiaries	504	374
Other liabilities	1,100	1,545
<b>Total liabilities</b>	<b>55,520</b>	<b>55,904</b>
<b>Total liabilities and equity</b>	<b>65,927</b>	<b>63,705</b>
Less cash funds available	6,595	3,030
<b>Total liabilities and equity less cash funds</b>	<b>59,332</b>	<b>60,675</b>

African Bank has the following facilities with financial institutions:

- a short-term facility in the amount of R500 million none of which has been utilised as at the Programme Date; and
- a specific purpose facility in an aggregate amount of R3.3 billion which can be utilised in the event of the US Dollar or Swiss Franc depreciates below a specific level to the ZAR to fund the collateral that is required to be repaid to swap counterparties.

Details of the outstanding bonds under the Programme are set out in the paragraph below headed “*Description of Certain Indebtedness*”.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

The following summary of certain provisions of the Issuer's indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

### The Programme

The following series of notes are currently outstanding under the Programme:

<u>Launch date</u>	<u>Size at issue (ZAR)</u>	<u>Outstanding Principal Amounts</u>	<u>Coupon</u>	<u>Maturity</u>
Jul-09	R520 million	R520 million	15.50 per cent.	Jul-16
Jul-09	R480 million	R480 million	Variable	Jul-16
Mar-10	R750 million	R750 million	5.10 per cent.	Mar-15
Mar-10	R500 million	R500 million	Variable	Mar-15
Mar-10	R500 million	R450 million	11.50 per cent.	Mar-15
Sep-10	R525 million	R525 million	9.50 per cent.	Sep-14
Sep-10	R475 million	R380 million	Variable	Sep-14
Mar-11	R1,000 million	R1,000 million	Variable	Mar-15
Mar-11	R515 million	R515 million	Variable	Apr-18
Oct-11	R278 million	R278 million	Variable	Oct-16
Oct-11	R652 million	R652 million	Inflation indexed	Oct-16
Mar-12	R300 million	R300 million	Variable	Mar-19
Jun-12	R1,367 million <sup>(1)</sup>	R1,367 million	Variable	Jun-19
Jun-12	R133 million	R133 million	Inflation indexed	Jun-19
Oct-12	R709 million	R709 million	Variable	Oct-15
Oct-12	R191 million	R191 million	Variable	Oct-17
Feb-13	R2,000 million	R2,000 million	Inflation indexed	Feb-18
Mar-13	R800 million	R800 million	Variable	Mar-16
Jun-13	R1,000 million	R1,000 million	Variable	Jun-16
Jul-13	R600 million	R600 million	Inflation indexed	Jul-20
Sep-13	R490 million	R490 million	Variable	Sep-15
Sep-13	R510 million	R510 million	Variable	Sep-18
<b>Total</b>		<b>R14,150 million</b>		

(1) This represents the aggregate value of the original issue and subsequent taps of this bond.

### The Euro Medium Term Note Programme

On 7 July 2010, the Issuer established its US\$1 billion Euro Medium Term Note Programme ("the EMTN Programme"), the nominal programme amount of which has since been increased to US\$6 billion. Since the establishment of the EMTN Programme, the Issuer has issued:

- senior notes on 25 October 2010, through a private unlisted placement, totaling US\$35 million carrying an interest rate of three-month LIBOR + 2.75 per cent. which matured in October 2013;
- a first tranche of senior notes on 15 June 2011 in an amount of US\$300 million and a second tranche thereof on 2 March 2012 in an amount of US\$50 million under the EMTN Programme, both of which were listed on the UKLA, carrying an interest rate of 6 per cent. and maturing in June 2016;
- senior notes on 24 February 2012 in an amount of US\$350 million under the EMTN Programme, which were listed on the UKLA, carrying an interest rate of 8.125 per cent. and maturing in February 2017;
- senior notes on 24 July 2012 in an amount of CHF150 million under the EMTN Programme and listed on the SIX Swiss Exchange carrying an interest rate of 4.75 per cent. and maturing in July 2015;

- senior notes on 9 November 2012 in an amount of CHF125 million under the EMTN Programme and listed on the SIX Swiss Exchange carrying an interest rate of 4.00 per cent. and maturing in November 2016;
- senior notes on 25 July 2013, through a private unlisted placement, totaling ZAR150 million carrying an interest rate of three-month JIBAR + 0.9 per cent. and maturing in July 2014;
- senior notes on 11 October 2013 in an amount of CHF105 million under the EMTN Programme and listed on the SIX Swiss Exchange carrying an interest rate of 5.5 per cent. and maturing in October 2017;
- senior notes on 28 February 2014 in an amount of CHF175 million under the EMTN Programme and listed on the SIX Swiss Exchange carrying an interest rate of 5.00 per cent. and maturing in August 2018, and
- senior notes on 17 March 2014, through a private unlisted placement, totaling US\$32 million carrying an interest rate of 2.40 per cent. and maturing in March 2015,

none of which are secured.

The EMTN Programme documents contain representations, warranties and undertakings common to agreements of this type and include customary covenants (subject to certain agreed exceptions) that restrict the Issuer's ability to create or permit the creation of any encumbrances other than those permitted under the EMTN Programme. The EMTN Programme documents contain customary events of default, including, but not limited to, non-payment, breach of other obligations set out in the agreements, failure to obtain any necessary consent, license, approval or authorisation, cessation of the whole or a substantial part of the Issuer's business as well as certain insolvency and winding-up or related events.

#### **Subordinated Debt raised from Development Finance Institutions (“DFIs”)**

During Financial Year 2009, African Bank raised an aggregate amount of R600 million in subordinated debt (in the form of long-term loans) from the International Finance Corporation (“**IFC**”), Société De Promotion Et De Participation Pour La Coopération Economique S.A. (“**Proparco**”) and DEG - Deutsche Investitions-Und Entwicklungsgesellschaft Mbh (“**DEG**”) on a non-syndicated basis.

The DFI term loan agreements constitute three separate bilateral agreements and contain representations and warranties and undertakings common to agreements of this type and similar counterparties and which are also common to each DFI agreement, to a large degree. The DFI term loan agreements include customary covenants, subject to certain agreed exceptions, that restrict the Issuer's ability to create or permit to the creation of any encumbrances. The agreements also contain customary events of default, including, but not limited to, non-payment, breach of other obligations set out in the agreement, defaults in other material contracts, cessation of the whole or a substantial part of its business, certain insolvency and winding-up or related events.

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## SELECTED FINANCIAL AND OTHER INFORMATION

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### **Fiscal and calendar years**

African Bank's financial year ends on 30 September. In this Programme Memorandum, in order to distinguish between financial years and calendar years, the following conventions are adopted: (i) calendar years are referred to as "calendar year [YEAR]" or simply "[YEAR]" and (ii) African Bank's financial year is referred to as the "year ended or year ending 30 September [YEAR]" or as "Financial Year [YEAR]". For example, the 12 month period ended 30 September 2013 is referred to as Financial Year 2013.

### **Latest Financial Information**

The latest financial information on African Bank, on a stand-alone basis, is contained in its audited financial statements for the financial year ended 30 September 2013 and its unaudited financial statements as at and for the six months ended 31 March 2014 (to be found on [www.abil.co.za](http://www.abil.co.za)) and are incorporated herein by reference.

### **Explanation of latest financial information and financial developments**

Potential investors should review, *inter alia*, the most recent financial statements of the Issuer, when deciding whether or not to subscribe for, or purchase, any Notes. In particular, and without limiting the generality of the foregoing, potential investors notice is drawn to note 43 to the Notes to the Annual Financial Statements of the Issuer for the year ended 30 September 2013, which note is titled "*Restatement and reclassification of Comparatives*". This should be read together with the section set out below headed "*Restatements of comparable balances - the impact of changes in provisioning methodology and accounting policies*". Such restatements occurred in the last quarter of 2013 and had a financial impact on the reported results for prior financial years.

### **Restatements of comparable balances - the impact of changes in provisioning methodology and accounting policies**

Financial year 2013 results were impacted by operational factors, non-recurring items and by provisioning methodology and accounting policy changes.

For the year ended 30 September 2013, African Bank reviewed its accounting policies and methodologies as part of its annual reporting process and implemented a change to its loan impairment provisioning methodology.

As a result, certain of figures for previous accounting periods have been restated, including figures for Financial Year 2011 and Financial Year 2012 as well as for the six months ended 31 March 2013. These adjustments are discussed below, with a focus on their financial impact in the Financial Year 2013 and prior financial years.

### ***LTIP hedge***

LTIP refers to the long term incentive plan operated for qualifying employees in the ABIL Group. The LTIP is a cash settled share appreciation scheme, modelled on the performance of ABIL shares. Qualifying employees are awarded a certain value of LTIPs each year. Further details about the LTIP appear below.

African Bank has hedged its liability in respect of LTIP's granted to its employees, using a total return swap on the underlying ABIL share, which matches the profile of the LTIP exposure.

The significant drop in the ABIL share price from 3 305 cents, as at 30 September 2012, to 1 670 cents as at 30 September 2013, brought about an additional fair value charge for the LTIP of R205 million before tax.

An outline of the LTIP awards is as follows:

- Each LTIP award, plus an additional amount of between 100 per cent. and 200 per cent. of the value of the LTIP award, depending on the individual's level in the group (2011: between 100

per cent. and 200 per cent.), achieved through a notional non-recourse loan, is synthetically “invested” into ABIL shares. The deemed acquisition price of each LTIP is set at the VWAP for the three month to end November (previously the calendar month of issue of the LTIPs, being September) of each year. The value of the final award is determined with reference to the VWAP for the similar three-month period ending November (previously the VWAP for the month of vesting).

- Interest is accrued on the notional loan on a semi-annual basis and the dividends paid on the synthetic ABIL shares (grossed up at the corporate tax rate) are applied to reduce the loan balance. The interest rate charged on the notional loan is market related having regard to the risk free rate in the market and the risk premium relevant to a similar investment. The value of the LTIP, from time to time, is the market value of the synthetic ABIL shares, less the remaining balance on the notional loan after accruing interest and notional dividends.
- The LTIP award vests annually on 30 September, and is paid out after the end of November at market value, based on the ABIL VWAP for the three months ending 30 November (previously the calendar month of vesting), over five tranches equivalent to 15 per cent. in the first year, 20 per cent. from the second to fourth years and 25 per cent. in the fifth year (2011: five tranches as above, 2010 and prior: four equal tranches). Should the individual resign or be dismissed, his or her unvested LTIP awards will be forfeited and cancelled.

#### ***Change in the loan impairment provisioning methodology***

Under the National Credit Act (“NCA”), once a credit agreement goes into arrears, a credit provider is not allowed to raise interest, fees and charges in excess of the total outstanding amount of the balance determined at the time that the account goes into arrears. African Bank has applied this requirement consistently across all its portfolios when defaulting loans reach the *in duplum* threshold (“**Threshold Loans**”) and thus no interest, fees or charges have been raised on customer accounts on these Threshold Loans.

For purposes of calculating the impairment provisions against the non-performing and written off loans on a portfolio basis, International Accounting Standard 39 (“**IAS39**”) does not have an alternative treatment for situations where no interest and fees are permitted to be charged and requires the application of the effective interest rate of the loans at origination for purposes of the present value calculation. Historically African Bank applied a lower weighted average effective interest rate to calculate the present value of impaired loans, taking into consideration the fact that no interest or fees are being charged on the Threshold Loans. As a result of the growth in the Threshold Loans over time, the difference between the two provisioning methodologies has become cumulatively material for Financial Year 2013. Accordingly, African Bank has amended its provisioning methodology to discount all forecast cash flows at the original effective interest rates. As a result of this change to the accounting policy, various Financial Year 2011 and Financial Year 2012 comparative figures have been restated.

#### ***Change to the write-off policy of Non-performing loans (“NPLs”)***

African Bank has revised its write-off policy by making two changes in September 2013 in order to ensure that the NPLs carried into financial year 2014 and beyond are of an improved quality. African Bank has reduced the criteria for write-off from 17 months of non-payment to 12 months of non-payment. This change has resulted in an additional write-off of R1.3 billion during the year.

#### ***Impairment of goodwill***

International Accounting Standard 39 (“**IAS 36**”) – Impairment of Assets, requires goodwill to be tested for impairment annually. IAS 36 further requires that this assessment be based on the business units’ recoverable amount, considering the most recent cash flow projections and excluding any changes that management will implement in the future to improve the performance of the business units.

In accordance with IAS 36, ABIL has determined that the carrying value of the goodwill related to

the acquisition of Ellerine Holdings Limited (registration number 1968/013402/06) (“**Ellerines**”) exceeds the recoverable amount principally as a consequence of the lower profitability in financial year 2013. As a result, R4,0 billion of African Bank’s goodwill was impaired during financial year 2013.

The impairment of goodwill for accounting purposes has no impact on regulatory capital as goodwill is deducted from core equity tier 1 capital.

For a reconciliation of the financial impact of these changes, please refer to the table below:

*Income statement impact of exceptional adjustments in 2013 (post-tax)*

Adjustment R million	Sep 2013	Sep 2012	Prior years
LTIP hedge	(205)	–	–
Goodwill impairment	(4 000)	–	–
Change in the loan impairment provisioning methodology	(608)	255	(1 213)

***Economic and business overview for the six months ended 31 March 2014***

The success of an unsecured lending business is based on the ability to correctly predict and price, through economic cycles, for the credit risk by determining the future ability of customers to timeously meet their contractual repayment on loans granted and their credit card debt. Notwithstanding stricter underwriting standards and periodic reduction in risk, tough economic cycles negatively impact this ability.

The South African economy continues to experience difficult conditions, with downward revisions in gross domestic product (GDP), increased inflation trends signaling probable interest rate increases, all of which have had and will continue to have a negative impact on consumer confidence and their ability to meet their financial commitments. This is particularly true of the customers in the medium to lower living standards measures (LSM 2-8). While the granting of credit has always been and continues to be a cyclical business, African Bank expects that the South African economy will continue to face substantial headwinds during the next two to three years.

The impact on African Bank’s business has been significant pressure on collections, which has led to an increase in NPLs, and lower collections on those NPLs. This is particularly true in respect of poorer quality loans advanced before July 2013 that continues to impact the results disproportionately through a significantly higher risk charge. Given the higher risk emergence during this period, African Bank increased the general credit provision significantly. The lower new business volumes and the higher NPL formation have also resulted in a lower income yield for the six months ended 31 March 2014. These factors have resulted in a significant loss for this period.

The loans advanced before July 2013 continue to produce an elevated level of NPLs each month. This, combined with materially higher provision coverage, has increased the risk charge significantly. However, the performance of the loans advanced after June 2013 shows the expected level of reduced credit risk due to the significantly stricter underwriting interventions implemented by African Bank in July 2013.

New business volumes of R9,9 billion for the six months ended 31 March 2014 have decreased as a result of these stricter underwriting policies and the weak operating environment, bringing them in line with those experienced in 2011 (R10,1 billion). The quality of this business is meeting expectations and is better than equivalent tranches of business originated during 2012 and the first half of 2013, which represented the last stages of the high growth cycle of 2010 to mid-2013.

***Financial performance for the six months ended 31 March 2014***

African Bank reported a headline loss of R2.7 billion for the six months ended 31 March 2014 relative to the R46 million restated headline earnings for the six months ended 31 March 2013.

African Bank was negatively impacted by lower disbursements and advances growth, a slight decrease in yield as a result of increased NPLs, as well as deteriorating asset quality with commensurate significantly higher credit impairment charges. This was as a result of continuing risk emergence from loans advanced prior to the risk reduction in July 2013. Specific factors driving the increased risk charge were:

- An increase in specific provisions of approximately R600 million driven by the following factors:
  - NPL emergence on loans advanced before July 2013 being at higher than anticipated levels. The total NPL formation in the six months ended 31 March 2014 was approximately R6 billion which was R600 million more than the level anticipated; and
  - An increase in specific provision coverage on NPLs of over 1% from 30 September 2013 to 31 March 2014. This is due to seasonal factors that impacted collections and a continued challenging collections environment;
- A decision to increase the general provision for credit impairment significantly relating to the performing loans by approximately R2.5 billion.

African Bank reduced the granting of new loans to riskier customer segments during 2013 and significantly curtailed its credit risk appetite further from July 2013. This resulted in a reduction and re-pricing of new business within the riskier segments of its customer base. This has had an expected negative impact on the volume of new loans advanced, with the relative positive impact of the new business still being masked by the risk emergence of loans advanced before July 2013.

The information provided above has not been reviewed and reported on by the ABIL Group's external auditors.

#### **Selected financial information**

The selected income statements, balance sheets, statements of changes in equity and cash flow statements as at and for Financial Years 2013 and 2012 and as at and for the six months ended 31 March 2014 and 2013 of the Issuer were prepared in accordance with IFRS and unaudited financial statements as at, and for the six months ended 31 March 2014 and 2013 and have been derived from, and are qualified in their entirety by reference to, the Issuer's audited financial statements and unaudited interim financial statements, respectively, which are incorporated by reference into this Programme Memorandum.

## Balance Sheet

	As at 31 March		As at 30 September	
	2014	2013	2013	2012
	Restated		Restated	
	<i>Unaudited</i>		<i>Audited</i>	
	<i>(in Rand millions)</i>			
<b>Assets</b>				
Short-term deposits and cash	6,595	4,775	3,030	2,935
Statutory assets	3,807	3,691	3,859	3,132
Other assets	4,309	2,366	3,615	1,199
Taxation	493	482	490	294
Net advances	47,494	49,218	49,910	44,800
Deferred tax asset	1,305	192	278	324
Amounts owing by holding company and fellow subsidiaries	520	567	1,337	258
Intergroup loan – Ellerines	801	770	569	461
Property and equipment	486	517	488	527
Intangible assets	117	122	129	134
Goodwill	-	4,000	-	4,000
<b>Total assets</b>	<b>65,927</b>	<b>66,700</b>	<b>63,705</b>	<b>58,064</b>
<b>Liabilities and Equity</b>				
Short-term funding	7,111	5,109	7,513	4,111
Short-term funding - Ellerines	77	199	121	184
Other liabilities	1,100	1,356	1,545	1,133
Bonds and other long-term funding	42,339	43,654	41,990	37,300
Subordinated bonds, debentures and loan	4,389	4,355	4,361	3,831
Amounts owing to fellow subsidiaries	504	263	374	530
<b>Total liabilities</b>	<b>55,520</b>	<b>54,936</b>	<b>55,904</b>	<b>47,089</b>
Share capital	121	121	121	121
Share premium	14,083	8,533	8,833	8,083
Reserves	(3,797)	3,110	(1,153)	2,771
<b>Ordinary shareholder's equity</b>	<b>10,407</b>	<b>11,764</b>	<b>7,801</b>	<b>10,975</b>
<b>Total liabilities and equity</b>	<b>65,927</b>	<b>66,700</b>	<b>63,705</b>	<b>58,064</b>

## Income Statement

	For the six months ended		For the year ended	
	31 March		30 September	
	2014	2013	2013	2012
	Restated		Restated	
	<i>Unaudited</i>		<i>Audited</i>	
	<i>(in Rand millions)</i>			
Interest income on advances	6,017	5,630	11,859	9,823
Non-interest income	1,712	1,682	3,566	3,206
<b>Income from operations</b>	<b>7,729</b>	<b>7,312</b>	<b>15,425</b>	<b>13,029</b>
Credit impairment charge	(7,987)	(3,866)	(9,096)	(4,815)
<b>Risk-adjusted income from operations</b>	<b>(258)</b>	<b>3,446</b>	<b>6,329</b>	<b>8,214</b>
Other interest income	232	168	346	302
Interest expense	(2,400)	(2,191)	(4,528)	(3,787)
Operating costs	(1,323)	(1,306)	(2,787)	(2,513)
Indirect taxation: VAT	(22)	(37)	(88)	(49)
<b>(Loss)/Profit from operations</b>	<b>(3,771)</b>	<b>80</b>	<b>(728)</b>	<b>2,167</b>
Capital items	-	-	(4,000)	-
<b>(Loss)/Profit before taxation</b>	<b>(3,771)</b>	<b>80</b>	<b>(4,728)</b>	<b>2,167</b>
Direct taxation: STC	-	-	-	(2)
Direct taxation: SA normal	1,055	(34)	193	(607)
<b>(Loss)/Profit for the year</b>	<b>(2,716)</b>	<b>46</b>	<b>(4,535)</b>	<b>1,558</b>

## Statement of changes in equity

	For the six months ended 31 March 2014					
	<i>(in Rand millions)</i>					
	Share capital	Share premium	Distributable reserves	Share-based payment reserve	Cashflow hedging reserve	Total
<b>Balance at 30 September 2012 (restated)</b>	<b>121</b>	<b>8,083</b>	<b>3,202</b>	<b>(3)</b>	<b>(428)</b>	<b>10,975</b>
Total comprehensive income for the period	-	-	46	(30)	323	339
Share capital raised	-	450	-	-	-	450
<b>Balance at 31 March 2013 (restated)</b>	<b>121</b>	<b>8,533</b>	<b>3,248</b>	<b>(33)</b>	<b>(105)</b>	<b>11,764</b>
Total comprehensive income for the period	-	-	(4,581)	33	285	(4,263)
Share capital raised	-	300	-	-	-	300
<b>Balance at 30 September 2013 (audited)</b>	<b>121</b>	<b>8,833</b>	<b>(1,333)</b>	<b>-</b>	<b>180</b>	<b>7,801</b>
Total comprehensive loss for the period	-	-	(2,716)	-	72	(2,644)
Share capital raised	-	5,250	-	-	-	5,250
<b>Balance at 31 March 2014 (unaudited)</b>	<b>121</b>	<b>14,083</b>	<b>(4,049)</b>	<b>-</b>	<b>252</b>	<b>10,407</b>

## Cash Flow Statement

	For the six months ended		For the year ended	
	31 March		30 September	
	2014	2013	2013	2012
		Restated	Restated	Restated
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	
	<i>(in Rand millions)</i>			
Cash generated from operations	3,985	4,755	10,339	7 832
Increase in gross advances	(5,695)	(8,342)	(14,367)	(16 409)
Decrease/ (increase) in income earning assets	50	(555)	(723)	(768)
Increase in customer deposits	72	16	85	3
Indirect and direct taxation paid	(25)	(242)	(284)	(665)
Cash outflow from operating activities	(1,613)	(4,368)	(4,950)	(10 007)
Cash inflow/(outflow) from investing activities	500	(673)	(1,308)	(825)
Cash inflow from financing activities	4,678	6,881	6,353	10 887
<b>Increase in cash and cash equivalents</b>	<b>3,565</b>	<b>1,840</b>	<b>95</b>	<b>55</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,030</b>	<b>2,935</b>	<b>2,935</b>	<b>2,880</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6,595</b>	<b>4,775</b>	<b>3,030</b>	<b>2,935</b>

### *Restatements and reclassification – presentation of the statement of cash flows*

Following an internal review, African Bank's statement of cash flows has been improved to strictly show the cash flows on the direct method. The revised disclosure resulted in changes in cash flows from operating, investing and financing activities.

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## DESCRIPTION OF AFRICAN BANK LIMITED

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*This section serves as a brief description of African Bank Limited (Registration Number 1975/002526/06) (the “Issuer”). Further information is available on the Issuer and its holding company African Bank Investments Limited (Registration Number 1946/021193/06) at [www.abil.co.za](http://www.abil.co.za) and investors are advised to visit the website.*

### OVERVIEW

African Bank Limited (registration number 1975/002526/06) (“**African Bank**” or the “**Issuer**” or the “**Bank**”) is a bank registered under the Banks Act and is a wholly-owned subsidiary of African Bank Investments Limited (registration number 1946/021193/06) (“**ABIL**”), a registered bank controlling company listed on the JSE. Both African Bank and ABIL are subject to the regulation of the Registrar of Banks and the Bank Supervision Department of the SARB.

African Bank holds a full banking licence granted by the SARB and is authorised as a financial services provider in South Africa by the Financial Services Board of South Africa (the “**FSB**”). The Bank is a member of the Banking Association in South Africa and a registered credit provider under the authority of a licence issued by the National Credit Regulator (“**NCR**”) in South Africa.

African Bank is the sixth largest bank and the largest unsecured loan provider in South Africa. The Bank provides short to medium term unsecured loans to individuals and, as at 31 March 2014, operated through 510 banking distribution points across South Africa. Personal loans granted by African Bank are used predominantly for incremental housing, education, emergencies and debt consolidation purposes. As at 30 September 2013, the Bank had total assets of R63.7 billion (compared to R58.1 billion as at 30 September 2012) and as at 31 March 2014, the Bank had total assets of R65.9 billion (compared to R66.7 billion as at 31 March 2013). As at 30 September 2013, African Bank provided services to 2.7 million customers, employed 5,230 members of staff and had a gross advances book of R59.0 billion. The gross advances book grew to R61.6 billion as at 31 March 2014 servicing 2.4 million customers and serviced by 5,303 members of staff.

The Standard General Insurance Company Limited (registration number 1948/029011/06) (“**Stangen**”) is also a wholly-owned subsidiary of ABIL and is registered in South Africa as a long-term insurance company with a licence to market credit insurance products. While African Bank and Stangen are separated for regulatory purposes, the two entities are largely managed and reported on as a single business unit (collectively, the “**African Bank Business Unit**”). Stangen provides credit life insurance cover in relation to loans originated exclusively by African Bank. The key financial relationship between African Bank and Stangen is the commission that is paid by Stangen to African Bank as an intermediary in respect of the brokering of Stangen’s insurance products to African Bank’s customer base.

On 21 January 2008, ABIL acquired Ellerines, an established furniture and appliance retailer. The strategic rationale underpinning the acquisition of Ellerines was to add to the critical mass in African Bank’s traditional customer base and advances book, while opening up new areas for growth. Key to the achievement of this objective was the integration of the financial services activities of the two businesses. This integration took place in two phases. First, the front-end credit origination platform of African Bank was implemented across all Ellerines branded stores. Second, Ellerines’ financial services activities were integrated into African Bank.

The first phase was completed during Financial Year 2010. In order to implement the second phase, with effect from 7 September 2010, African Bank acquired the financial services activities of Ellerine Furnishers (Proprietary) Limited (registration number 1969/002687/07) (“**EFPL**”), a wholly owned subsidiary of Ellerines, comprised primarily of its South African net advances book and the related deferred tax assets of Ellerines, along with the right to grant credit in all EFPL’s South African stores and goodwill relating to the financial services business. The financial services business of EFPL that has been integrated into African Bank excludes the insurance activities currently carried out within the Ellerines group and the provision of credit in the non-South African stores. (See “*Strategy-Focus on risk-based financial services*”).

African Bank has its registered office and headquarters at 59, 16th Road, Midrand, 1685, South Africa, telephone number: +27 11 256 9000; fax number: +27 11 256 9306.

## HISTORY

African Bank was incorporated in South Africa on 31 July 1975 as a limited liability company under South African law. The Bank was originally incorporated under the name “The African Bank of South Africa Limited” and was subsequently renamed “The African Bank Limited” on 20 February 1978. The Bank thereafter changed its name from “The African Bank Limited” to “African Bank Limited” on 2 November 1999.

Prior to 1998, African Bank operated for 24 years as a small commercial bank with its roots in, and concentrating on, the historically disadvantaged market in South Africa. Following its acquisition by JSE-listed Theta Group Limited (ABIL’s former name) in 1998, African Bank was merged with King Finance Corporation Limited, Unity Financial Services Limited and Alternative Finance Limited, three loan finance companies owned by Theta Group Limited. At that time, non-core assets and certain former business activities of African Bank were disposed of, including the Bank’s retail deposit taking and transaction banking activities. Only business activities relevant and complementary to the core business of providing unsecured loans to individuals were retained.

In December 1999, Theta Group Limited was renamed “African Bank Investments Limited”.

## CORPORATE STRUCTURE

### ABIL Share capital and ownership

As at the date of this Programme Memorandum, ABIL has 1,501,093,232 issued ordinary shares and 13,523,029 non-participating, non-cumulative, non-redeemable preference shares. The ordinary shares in issue increased by 685,281,693 as a result of the rights issue concluded on 9 December 2013. The table below sets out ABIL’s largest ordinary shareholders as at 31 March 2014:

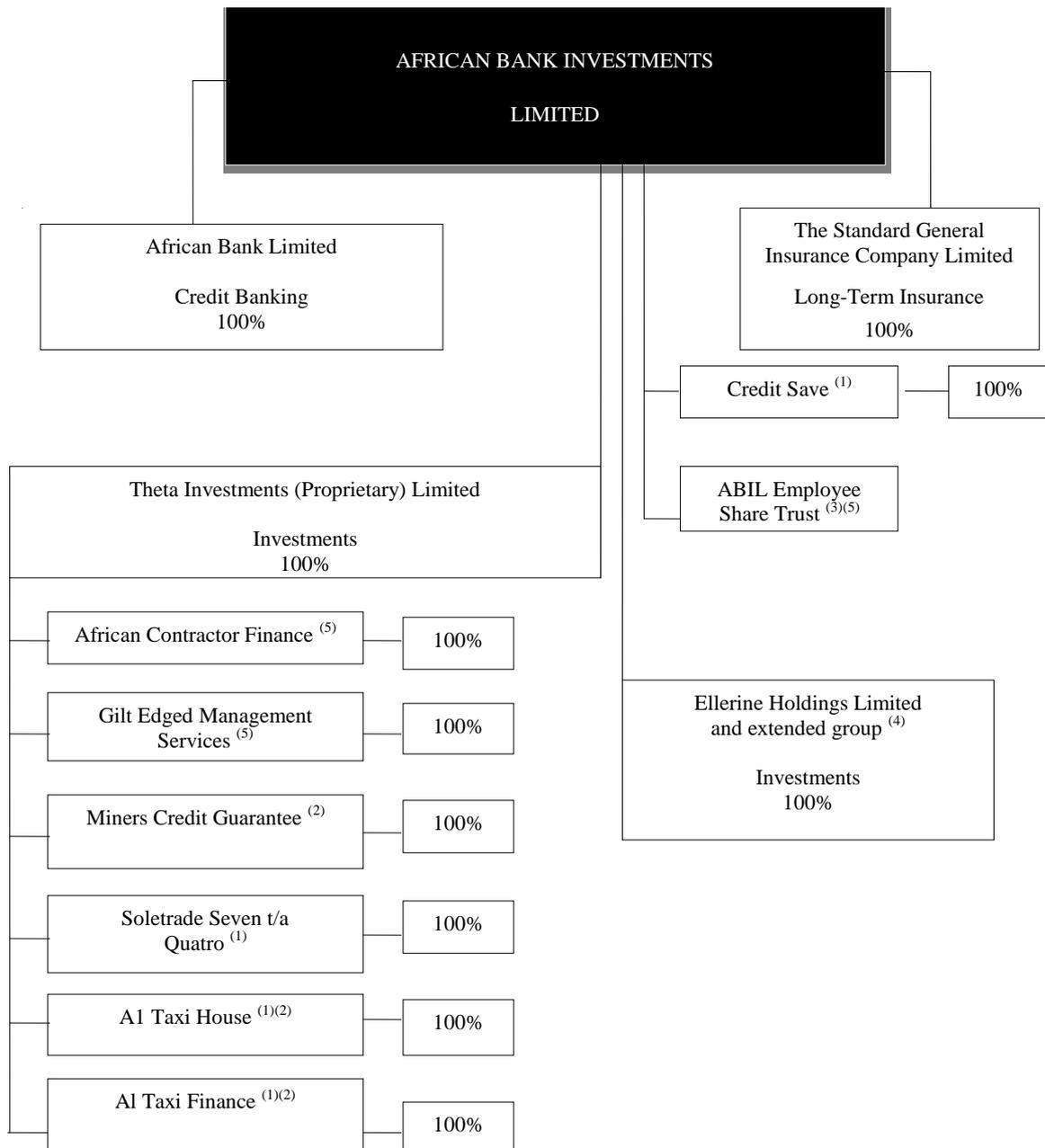
### Top shareholders/managers of ABIL shares

Managers	Holding	%
Coronation Asset Management (Pty) Ltd (ZA)	331 386 838	22.08
PIC (ZA)	187 825 088	12.51
STANLIB Asset Management (ZA)	116 814 516	7.78
Genesis Investment Management LLP (UK)	82 096 895	5.47
FIL Limited/FMR LLC	57 565 434	3.84
Sanlam Investment Management (ZA)	51 079 387	3.40
Allan Gray Investment Council (ZA)	50 039 568	3.33
Eyomhlaba Investment Holdings Limited (ZA)	48 591 160	3.24
Momentum Investments	45 839 820	3.05
BlackRock Inc	35 354 641	2.36

## Top beneficial holders

Top Beneficial Owner	Holding	%
Government Employees Pension Fund (PIC) (ZA)	230 788 823	15.37
ABIL's BEE programmes*	74 502 960	4.97
Liberty Life Association of Africa Ltd (ZA)	72 553 052	4.83
Coronation Top 20 Fund (ZA)	54 967 252	3.66
Investment Solutions (ZA)	37 253 685	2.48
Coronation Balanced Plus Fund (ZA)	32 997 577	2.20
Genesis Emerging Markets Inv Company (UK)	27 056 238	1.80
GIC Asset Management Pte Ltd (SG)	23 391 574	1.56
International Finance Corporation (US)	22 517 000	1.50
Leon Kirkinis	22 000 000	1.47
<b>* ABIL's BEE programmes</b>		
Eyomhlaba Investment Holdings Limited	48 591 160	3.24
Hlumisa Investment Holding Limited	25 911 800	1.73

The following chart sets out the corporate structure of ABIL and its subsidiaries (the “**ABIL Group**”) as at the date of this Programme Memorandum:



- 
- (1) Dormant
  - (2) Has been divisionalised into African Bank Limited
  - (3) Trust.
  - (4) The main operating subsidiary (100% owned) of Ellerines is Ellerines Furnishers (Proprietary) Limited
  - (5) Being wound up

## **STRATEGY**

African Bank's strategy, which is aligned to that of its controlling company ABIL, is to be the leading provider of unsecured, risk-based financial services in the South African credit market. African Bank seeks to expand within its chosen markets by continuing to grow its business and to offer a more competitive proposition to its customers. In order to achieve this strategy, African Bank seeks to build the largest advances book, client base and distribution presence within the Banks's target market through the provision of unsecured credit and various credit led products.

The key elements to African Bank's strategy are the following:

### **Maintaining a foundation of financial strength**

African Bank focuses on strengthening its capital base, developing new and alternative funding strategies, and diversifying its funding sources geographically, in order to achieve a balance between distributing attractive dividends to its shareholders and retaining earnings to support growth.

The Bank maintains a conservative approach to capital and liquidity management, which includes maintaining appropriate capital adequacy levels, prudent liquidity management targeted at maintaining a net positive liquidity gap across all periods, and a cautious dividend policy that conserves sufficient capital for growth. The success of this approach is reflected by the consistently available funding and overall reductions in the cost of funding over the past few financial years.

### **Improving the yield/risk relationship**

African Bank's scoring models were adjusted to optimise the yield/risk relationship during Financial Year 2013 in order to enhance returns. The Bank implemented a range of loan size and pricing changes to reduce exposure in less profitable market segments and shift the risk profile to lower risk. African Bank implemented a significantly improved proposition for low risk customers, including new products and distribution options, aimed at increasing the number and overall proportion of low risk customers. At the same time, loan sizes were reduced for medium and higher risk customers, which African Bank estimates will affect approximately 40 per cent. of customers who, as a result of these changes, will receive smaller loans, over shorter terms and with lower instalments. African Bank expects that these changes will improve its return on assets in the medium term.

### **Focus on risk-based financial services**

The board of directors of African Bank (the "Board") believes that it has implemented the majority of its envisaged strategic initiatives with regard to Ellerines. Over the past five years, ABIL has made extensive changes to the Ellerines business model to transform it into a viable standalone business. The financial services business was transferred to African Bank and, the price of credit was reduced substantially. In the past three years, of the 1,000 Ellerines stores, more than 500 stores have been refurbished, resited or replaced. The stock profile and product quality has been improved, and a state-of-the-art regional retailing distribution and logistics infrastructure has been established. Additionally, the Ellerines business has been substantially simplified, resulting in greater efficiencies in the Ellerines stores. The workforce has been decreased and, as at 30 September 2013, approximately 300 unprofitable Ellerines stores have been closed.

However a standalone product-based retail business does not fit the current strategic requirements of ABIL's risk-based financial services business model. ABIL has therefore decided to dispose of the furniture retail business, and ABIL is actively reviewing various options designed to accomplish this in an appropriate and timely manner that will optimise the strategic outcomes for both ABIL and Ellerines.

### **Enhancing collection activities**

African Bank seeks to continue to improve recoveries and enhance profitability through investment in and refinement of its collection activities. African Bank has enhanced its collection activities in a flexible and sustainable manner by dedicating a considerable amount of time towards improving its collection activities through its banking distribution points. The Bank's call centre has been enlarged, bringing the total capacity to approximately 1,300 employees. As a result of such initiatives, collection ratios continue to improve from the lows experienced in December 2012 and January 2013. Collection activities, however, have not yet achieved the same levels as Financial Year 2012, primarily as a result

of less early settlement of debt by other credit providers, but also because of constraints on the disposable income of consumers.

### **Delivering value to customers**

African Bank seeks to deliver market leading customer value and this strategy largely drives its activities. The Bank has traditionally focused on providing its customers with better value, while ensuring greater access to distribution points and convenience for both existing and new customers. However, the acquisition of Elleries, along with steadily increasing levels of competition in the unsecured credit market, the benefits of rapid technological innovation, and the evolution of the needs and expectations of its customers have together prompted African Bank to augment its existing strategy with respect to its customers. This process includes product innovation, substantially increasing distribution capabilities and channels.

During 2013, African Bank launched new products into the market and introduced improvements to its current product offering. These include, among others:

- expanding its vehicle finance product;
- launching products such as “Change your term” under which a customer can extend the term of its loan to reduce instalment sizes, and “Choose your break”, which is designed to encourage and reward good repayment behaviour, and offers a one-month payment break of the customer’s choice on condition that loan repayments are up to date;
- introducing a new platinum credit card for its best customers;
- enhancing the credit life product and claims processes to enable faster resolution of claims;
- launching a pilot program that provides loans to non-South African customers residing in South Africa; and
- launching certain retail savings and investments products at the beginning of Financial Year 2013.

### **Maintaining a dedicated and motivated workforce**

African Bank values the engagement with its employees and believes that its long-term growth and success is strongly dependent on its ability to retain and develop a dedicated and motivated workforce. The Bank’s strategy is to build an organisation that will remain at the forefront of innovation and value creation for all its stakeholders; by enabling its employees to fully understand and contribute towards its vision.

### **Focusing on optimising business efficiency and lowering costs**

African Bank regards a low cost structure as a key competitive strength and business imperative. African Bank’s strong growth and increased distribution network gave rise to a substantial increase in operating expenses during Financial Year 2012. As a result, African Bank renewed its focus on improving efficiencies and returning the Bank to its historical track record of low annual cost growth.

## **BUSINESS OF AFRICAN BANK**

### **Introduction**

African Bank, as a registered bank under the Banks Act, offers competitively priced long-term and short-term loans to individuals, as well as credit card and credit life products to its customers.

Personal loans granted by African Bank are predominantly used for, *inter alia*, housing and home improvements, household appliance purchases, vehicle purchases, education, emergencies and debt consolidation. The Bank’s credit granting process involves extensive credit scoring, risk assessment and affordability calculation processes. As at 30 September 2013, the Bank had 2.7 million customers using 514 banking distribution points, which were serviced by 5,230 members of staff. As at 31 March 2014, the Bank had approximately 2.4 million customers reflecting a 9 per cent. decrease in the number of customers from 30 September 2013.

### **Personal Loans**

African Bank provides unsecured loans to lower and middle income customers in South Africa. The eligibility criteria for African Bank’s loans require individuals to be formally employed and to have a bank account in South Africa. The Bank’s loan products are typically term facilities, having maturities

of between three and 84 months with fixed, equal monthly repayments. The average loan term granted in Financial Year 2013 was approximately 51 months (compared to 48 months in Financial Year 2012) and the average loan size was R13,182 (compared to R12,650 in Financial Year 2012). For the six months ended 31 March 2014, the average loan term of loans granted in that six-month period was approximately 54 months (compared to 49 months for the six months ended 31 March 2013) and the average loan size was R13,868 (compared to R12,817 for the six months ended 31 March 2013). The increase in average loan size and loan term was solely as a result of a reduction in the number of loans granted to the higher-risk customers with no increases having been made to loan term or loan sizes in the six months ended 31 March 2014.

The following table sets out information pertaining to new loans during Financial Year 2013 and 2012, including for the six months ended 31 March 2014 and 2013:

	For the six months ended 31 March		For the year ended 30 September	
	2014	2013	2013	2012
Disbursements (being value of new loans granted) ( <i>R million</i> )	8,605	11,287	20,380	23,052
Number of new loans ( <i>thousands</i> )	606	894	1,559	1,814
Average loan size ( <i>Rand</i> )	13,868	12,817	13,182	12,650
Average term ( <i>months</i> )	54	49	51	48
Loan approval rate ( <i>percentage</i> )	67	70	68	71
Number of new customers ( <i>thousands</i> )	190	278	479	573

### Credit Cards

In addition to African Bank's unsecured loan products, the Bank offers a variety of credit card products to its customers, ranging from entry level (blue) cards for its high risk customers, to gold cards for its low risk customers. It also introduced a new platinum card for its best customers during the latter part of Financial Year 2013. Each credit card is treated by African Bank as a revolving credit facility. The credit card products are unique in the South African industry in that, for most of the card products, the customer repays a fixed amount per month (based on the credit limit granted) regardless of the outstanding balance. This is done to assist customers with their budgeting for monthly expenses. African Bank believes it was also one of the first banks to offer credit card products to the low to middle income market and continues to be one of the key providers of credit cards to this substantially untapped sector.

Credit card disbursements during Financial Year 2013 decreased by 21 per cent., to R2,307 million (compared to credit card disbursements of R2,925 million during Financial Year 2012). In the same period, the number of new credit cards issued decreased by 21 per cent. These sales, together with improved utilisation on the cards, translated into a 12 per cent. growth in credit card advances, to R8.2 billion (compared to credit card advances of approximately R7.3 billion during Financial Year 2012).

During the six months ended 31 March 2014, African Bank generated credit card sales of R1,250 million (compared to credit card sales of R1,255 million during the six months ended 31 March 2013). In the same period, the number of new credit cards issued decreased by 20 per cent. Despite lower sales, there was a 13 per cent. growth in credit card advances portfolio to R8.7 billion (compared to total credit card advances of approximately R7.7 billion as at 31 March 2013).

The following table sets out a summary of African Bank's credit card portfolio for Financial Year 2013 and 2012, including the six months ended 31 March 2014 and 2013:

	For the six months ended 31 March		For the year ended 30 September	
	2014	2013	2013	2012
Disbursements (being value of new credit cards granted) ( <i>R millions</i> )	1,250	1,255	2,307	2,925
Credit card loan portfolio ( <i>R millions</i> )	8,742	7,744	8,151	7,300
Number of new cards issued ( <i>thousands</i> )	105	132	240	302
Total number of cards in issue ( <i>thousands</i> )	951	946	959	899

### **Credit life insurance**

Credit life insurance is sold by Stangen, a registered long term insurer, to African Bank's customers on an exclusive basis. The insurance policies sold by Stangen covers a customer's outstanding credit obligation on the Bank's loans to that customer for the duration of the loans, in the event of that customer's death, disability or retrenchment (essentially a form of dismissal or redundancy where the employee is dismissed as a result of the economic or other requirements of the employer and through no fault of the employee). The underwriting risk in the insurance portfolio is retained by Stangen, and is not reinsured.

### **Products launched in pilot**

#### ***Retail savings and investment products***

The Bank launched its retail savings and investment products on 1 October 2012. The offering is primarily web-based and investors are able to register, view products, apply for new products and view statements online ([www.africanbanksavings.co.za](http://www.africanbanksavings.co.za)). The product offering includes fixed deposits, flexible fixed deposits (where a portion of the deposit is available on notice) and notice deposits, and range in term from 32 days to 60 months. These products will further diversify African Bank's funding base and the Bank believes that it will provide an attractive alternative investment option for private retail investors wishing to diversify their investment portfolio. However, the Bank does not expect this to become a significant additional source of funding.

#### ***Funeral insurance***

In response to complaints by customers about the quality of funeral products available in the market, especially large scale repudiations and long delays in pay-outs, African Bank launched a funeral insurance product in Financial Year 2013, the Claim Express Funeral Plan, which pays claims within 24 hours or doubles the pay-out amount. This is the first stand-alone insurance product sold through African Bank distribution points. The product is underwritten by Stangen.

### **LOAN PORTFOLIO**

African Bank has only one category of advances product, being unsecured loans. As at 30 September 2013, African Bank's total gross advances to customers amounted to R59.0 billion, compared to R53.0 billion as at 30 September 2012, an increase of approximately 11 per cent. As at 31 March 2014, African Bank's total gross advances to customers amounted to R61.6 billion, compared to gross advances of R58.8 billion as at 31 March 2013.

### **Credit impairments for loans and advances**

Credit impairment provisions for loans and advances have increased by 8 per cent. from R9.8 billion in Financial Year 2012 to R10.6 billion in Financial Year 2013 against a background of a growth in loans and advances of 11 per cent. in Financial Year 2013. As at 31 March 2014, the credit impairment

provisions for loans and advances were R15.7 billion, an increase of 41 per cent. from R11.1 billion as at 31 March 2013, with the growth in loans and advances being 5 per cent. over this period.

The credit impairment charge has increased by 107% to R8.0 billion for the six months ended 31 March 2014 (compared to the restated credit impairment charge of R3.9 billion for the six months ended 31 March 2013). This charge, as a percentage of the average gross advances book, increased to 26.3% in the six months ended 31 March 2014 (compared to 13.5% for the six months ended 31 March 2014).

African Bank's overall asset growth remains muted, while the credit quality of the overall advances book has deteriorated during the six months ended 31 March 2014 as a result of a continuing tough operating environment. The loans advanced up to the end of June 2013 ("**pre July 2013 business**") continues to produce an elevated level of NPLs each month while the loans advanced after June 2013 shows the expected level of reduction in credit risk due to the stricter underwriting interventions implemented in July 2013.

Although African Bank expected the slowdown in NPL formation to manifest, this decline is taking longer than originally anticipated by African Bank. In light of the elevated level of NPLs emerging from the pre July 2013 business, African Bank increased the general provision on performing loans to cover the abnormal increase in NPLs anticipated in the remainder of Financial Year 2014 and beyond.

This general provision will be transferred to the specific impairment provision as and when the expected higher than normal level of NPLs from the pre July 2013 business emerges.

The following table sets out the credit impairments for loans and advances for Financial Year 2013 and 2012, including for the six months ended 31 March 2014 and 2013:

	As at 31 March		As at 30 September		
	2014	2013	2013	2012	2012
	Restated		Restated	As published	
	<i>Unaudited</i>		<i>Audited</i>		
	<i>(in Rand millions)</i>				
Gross advances					
Performing	42,071	41,607	42,338	37,824	37,824
Non-performing	19,552	17,192	16,622	15,160	15,160
<b>Gross advances</b>	<b><u>61,623</u></b>	<b><u>58,799</u></b>	<b><u>58,960</u></b>	<b><u>52,984</u></b>	<b><u>52,984</u></b>
Written off book at net realisable value	1,321	1,489	1,321	1,659	2,143
Deferred administration fees	251	33	195	(18)	(18)
<b>Gross advances, including written off book at net realisable value</b>	<b><u>63,195</u></b>	<b><u>60,321</u></b>	<b><u>60,476</u></b>	<b><u>54,625</u></b>	<b><u>55,109</u></b>
Impairment provisions and credit life reserves					
Balance at the beginning of the period	10,566	9,825	9,825	7,453	6,643
Impairment provisions raised	8,167	3,975	9,470	5,103	5,458
Bad debts written off (gross)	(4,238)	(3,452)	(10,229)	(4,984)	(4,984)
Bad debts rehabilitated	1,206	755	1,500	2,253	1,862
<b>Total impairment provisions</b>	<b><u>15,701</u></b>	<b><u>11,103</u></b>	<b><u>10,566</u></b>	<b><u>9,825</u></b>	<b><u>8,979</u></b>

Income Statement Charges	For the six months ended 31 March		For the year ended 30 September		
	2014	2013	2013	2012	2012
	Restated		Restated		As published
	<i>Unaudited</i>		<i>Audited</i>		
	<i>(in Rand millions)</i>				
Impairment provisions raised	8,167	3,975	9,470	5,103	5,458
Bad debts recovered	(180)	(109)	(374)	(288)	(288)
<b>Charge for bad and doubtful advances</b>	<b><u>7,987</u></b>	<b><u>3,866</u></b>	<b><u>9,096</u></b>	<b><u>4,815</u></b>	<b><u>5,170</u></b>
<b>Ratios</b>					
NPLs as a percentage of gross advances	31.7%	29.2%	28.2 %	28.6 %	28.6 %
Total impairment provisions as a percentage of NPLs	80.3%	64.6%	63.6 %	64.8 %	59.2 %
Total impairment provisions as a percentage of gross advances	25.5%	18.9%	18.8 %	19.2 %	17.2 %
Income statement charge for bad debts as a percentage of average gross advances	26.3%	13.5%	15.5 %	10.1 %	10.8 %
Gross bad debts written off as a percentage of average gross advances	13.9%	12.1%	17.4 %	10.5 %	10.5 %
Bad debts rehabilitated as a percentage of average gross advances	(4.0%)	(2.6%)	(2.6 %)	(4.7 %)	(3.9 %)
Net bad debt written off as a percentage of average advances	10.0%	9.4%	14.9 %	5.7 %	6.6 %

### Asset quality

Non-performing loans (“NPLs”) are defined as loans and advances that have more than three cumulative instalments in arrears. Once a loan is classified as an NPL, a provision is made for such NPL in the Bank’s accounts. In September 2013, as described in the trading statement issued by the Bank on 25 October 2013, the Bank adopted a more conservative approach in terms of write-offs and implemented two policy changes in order to ensure that NPLs carried into Financial Year 2014 are of an improved quality. The Bank has reduced the period before write-off from 17 months of non-payment to 12 months of non-payment. This policy change resulted in an additional write-off of R1.3 billion during Financial Year 2013. In addition, the Bank has identified certain NPLs within future credit portfolios and accelerated write-offs in respect of such NPL’s amounting to R1.7 billion. This has had the effect of reducing the NPL portfolio by R3.0 billion. Despite the fact that such loans are recorded as bad debts for accounting purposes, they are still followed up for collection.

The level of NPLs decreased as a percentage of gross advances for Financial Year 2013 to 28.2 per cent. (compared to 28.6per cent. for Financial Year 2012). Impairment provisions increased by R741 million in Financial Year 2013, resulting in an NPL coverage ratio of 63.6 per cent. (compared to 64.8 per cent. for Financial Year 2012). The Bank wrote off R10.2 billion in NPLs during Financial Year 2013 as compared to R5.0 billion for Financial Year 2012. As at 31 March 2014, the NPLs increased

by 14 per cent. to R19.6 billion (compared to R17.2 billion as at 31 March 2013) which, as a percentage of advances as at 31 March 2014, constituted 31.7 per cent., relative to the 29.2 per cent. as at 31 March 2013.

Collections during the six months ended 31 March 2014 continued to be challenging, which resulted in increased NPLs, and put significant strain on the recovery of NPLs. The combined impact of these factors has resulted in a higher NPL ratio as a percentage of gross advances and higher overall NPL coverage ratio. The NPL ratio increased to 31.7% as at 31 March 2014 (compared to 29.3% as at 31 March 2013). The lower collections materially translated into higher NPL migration which resulted in a significantly higher credit impairment charge for the six months ended 31 March 2014. The poor collections experienced, particularly during January 2014, where net NPL migrations peaked at R1.2 billion, contributed significantly to the additional impairment charge.

Collections initiatives have been further intensified to stem the flow of performing loans to NPLs. These are focused on both good and bad faith clients, requiring a slightly different focus.

## COMPETITION

### Competitors

African Bank is subject to competition from other major, traditional banks operating in South Africa, including competitors that have greater financial and other resources than African Bank. As at 31 March 2014 in South Africa, there were 16 registered banks, 14 branches of foreign banks, three mutual banks and 43 representative offices of foreign banks registered with the office of the Registrar of Banks. The largest competitor group to African Bank within the consumer credit market in South Africa comprises the various retailers who provide their customers with credit so as to facilitate the purchase of clothing, furniture and appliances. However, no single retailer has a leading share of this market, and, accordingly, no single retailer can be identified as a stand-alone key competitor of African Bank.

Banks that provide credit to their customers comprise the second largest group of African Bank's competitors. The following table sets out the respective market shares of African Bank and the largest banks in South Africa in relation to loans and advances to households as at 31 March 2014 and 30 September 2013:

<b><u>Bank</u></b>	<b><u>Loans and Advances</u></b>	
	<i>(percentage)</i>	
	<b>31 March 2014</b>	<b>30 September 2013</b>
African Bank	29.6	30.8
ABSA Bank Limited	9.5	9.4
Nedbank Limited	11.3	12.4
The Standard Bank of South Africa	14.5	14.1
First National Bank Limited	13.8	12.7
Capitec Bank	18.4	18.1
Investec Private Bank	2.0	1.6
<b>Total</b>	<b><u>99.1</u></b>	<b><u>99.1</u></b>

*Source: SARB (BA 900 Submissions)*

## **Competitive Strengths**

African Bank believes that it has a number of key strengths that allow it to compete effectively within its chosen markets.

### ***Focus on core competence of unsecured lending***

African Bank's focus on unsecured lending provides for a business model that avoids unnecessary complexity and allows for innovation through the continuous gathering and analysis of data. The unsecured lending customer is the focal point of African Bank's product offerings and marketing efforts, and this focus is not obscured by the demands of other activities conducted by more traditional banks. African Bank assumes credit risk, and seeks to mitigate, to the extent achievable, other financial risks, such as interest rate, foreign exchange, tax and liquidity risks. The experience and expertise of African Bank's management team in the business of unsecured lending strengthens the Bank's ability to focus on this segment of the credit market. The majority of the management team of African Bank's unsecured lending business has been working for the Bank for a number of years and, accordingly, has deep experience in managing the business through the credit cycles.

### ***Leading market position in unsecured lending***

As at 31 March 2014, African Bank's market share of the unsecured "bank provided" personal loans market and the credit card market in South Africa (calculated by the Bank on the basis of the BA 900 data published by the SARB) was 29.6 per cent. and 9.9 per cent., respectively. Since 1998, African Bank has been one of the leaders in the development of the unsecured lending market in South Africa, and it believes that it has the scale and technical expertise to remain a pioneer in opening up new market segments within the unsecured lending market. In Financial Year 2013, 70.95 per cent. of the average monthly disbursements were to clients that have previously been African Bank customers, which illustrates the strong customer loyalty that it enjoys.

### ***National, diverse distribution network***

African Bank had in excess of 510 banking distribution points as at 31 March 2014 covering both rural and urban markets across all regions of South Africa. The network includes, among others, stand-alone African Bank branches and African Bank branches and kiosks located within the Ellerines stores. This substantial physical distribution network is further supplemented by electronic distribution through web-based internet sites and mobile phone applications which provide the Bank's customers with convenient 24/7 access. African Bank believes that the sophistication of its electronic distribution system and the breadth of its physical distribution network gives it a competitive advantage.

### ***High growth industry***

African Bank operates in the high growth end of the South African consumer credit market where improvements to living standards have been most rapid. According to the South African Audience Research Foundation ("SAARF"), consumers moving up from the lowest income groups to middle income groups, increased the percentage of the population in middle income groups (LSM group 5-8), from 36.9 per cent. of the population in 2001 to 59.8 per cent. of the population in 2012. As living standards increase in lower income groups and new customers enter into the credit market, African Bank believes that its experience, scale, existing product platform and deep understanding of the industry will allow it to capitalise on this growth profitably.

### ***Advanced risk assessment, pricing and credit scoring processes***

African Bank uses an advanced, proprietary credit scoring system which it applies to assess the creditworthiness of individual customers. This system has evolved over many years and allows the Bank to make credit decisions for a customer and transfer loan funds to a customer's bank account within a very short period of time. African Bank's centralised credit underwriting allows for consistent credit assessment and enables timely adjustments for changes in the economic and market environments. The Bank's experience in credit scoring has also led to the implementation of scoring

models in other aspects of its business, notably its collections activities, which has led to substantial gains in efficiencies and in targeted collections practices.

### *Cost and investment discipline*

African Bank views the interplay between risk, cost efficiency and the weighted costs of capital as fundamental to its pricing strategy and ability to provide value to its customers. In this regard, striving to manage and maintain its relatively low cost structure (measured as a percentage of total assets and total income) as compared to industry norms is a priority. African Bank focuses on cost discipline while continuing to invest appropriately in targeted areas for growth and efficiency.

### **CAPITAL ADEQUACY**

The Bank operates subject to regulatory capital requirements. The Banks Act requires African Bank to maintain a minimum level of capital.

The following table sets out African Bank's actual capital position as at 31 March 2014, 31 March 2013, 30 September 2013 and 30 September 2012, respectively, employing the calculation methodology required by the SARB:

	<b>As at 31 March</b>		<b>As at 30 September</b>	
	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>
	<b>Restated</b>		<b>Restated</b>	
	<b>Unaudited</b>		<b>Audited</b>	
	<i>(in Rand millions)</i>			
<b>Total assets and commitments</b>				
On-balance sheet assets	65,936	68,030	63,705	58,064
Off-balance sheet assets	9,642	4,209	7,889	1,436
<b>Total</b>	<b>75,578</b>	<b>72,239</b>	<b>71,594</b>	<b>59,500</b>
Risk-weighted assets	<b>49,201</b>	<b>46,356</b>	<b>46,533</b>	<b>40,549</b>
<b>Total capital</b>				
Tier 1 (Share capital)	121	121	121	121
Tier 1 (Primary reserves)	9,214	8,781	7,185	7,419
Tier 1 (unappropriated profits )	-	144	-	691
Tier 2 (subordinated debt instruments)	3,112	3,501	3,287	3,390
Tier 2 (other)	563	236	585	123
<b>Total</b>	<b>13,010</b>	<b>12,783</b>	<b>11,178</b>	<b>11,744</b>
<b>Capital adequacy</b>				
Tier 1 (Share capital)	0.3%	0.3%	0.3 %	0.3 %
Tier 1 (Primary reserves)	18.7%	18.9%	15.4 %	18.3 %
Tier 1 (unappropriated profits )	-	0.3%	-	1.7 %
Tier 2 (subordinated debt instruments)	6.3%	7.6%	7.1 %	8.4 %
Tier 2 (other)	1.1%	0.5%	1.3 %	0.3 %
<b>Total</b>	<b>26.4%</b>	<b>27.6%</b>	<b>24.0 %</b>	<b>29.0 %</b>

## LEGAL AND REGULATORY PROCEEDINGS

In the ordinary course of its business, the Bank is a party to legal and regulatory proceedings. Based on the information currently known by its management, the Bank does not believe that the ultimate resolution of any pending matters will have a material adverse effect on its business, financial condition or results of operations.

### **Investigation by the National Credit Regulator**

In October 2012, the NCR announced that it was investigating a number of lenders, including the Bank, for alleged reckless lending activities under the NCA. The NCR investigation of the Bank, which was initially very broad, subsequently focused largely on the lending activity at the Bank's Dundee branch (the "**Dundee Branch**").

In February 2013, the NCR referred the matter to the National Consumer Tribunal (the "**Tribunal**") for adjudication and applied for an order from the Tribunal declaring that approximately 700 loans, largely originated at the Dundee Branch, with a capital value of R15.5 million be declared "prohibitive conduct" under the NCA and an administrative fine of R300 million be imposed on the Bank.

On 3 October 2013, the Bank announced that, through a process of mutual cooperation, the NCR and the Bank have resolved this matter amicably to the mutual satisfaction of both parties. The Bank agreed to pay an amount of R20 million to the National Revenue Fund in full and final settlement of this matter. Accordingly, this matter has been withdrawn from the Tribunal with immediate effect. The financial impact of this matter has been accounted for in Financial Year 2013.

### **Impact of future reviews and investigations as a result of regulatory and governmental oversight.**

As mentioned above, a number of lenders in South Africa, including African Bank, are subject to reviews and investigations by the NCR for possible non-compliance with the NCA. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the financial sector. Consequently, African Bank may be requested by the NCR to provide further information or otherwise cooperate with governmental authorities in the conduct of future reviews and investigations.

Although there can be no assurance as to the ultimate outcome of such reviews and investigations, African Bank has no reason to believe that any such reviews or investigations will uncover or reveal any deviation from prudent lending practices, which would materially adversely affect the business of African Bank. African Bank acknowledges however, that instances of internal policy breaches do occur from time to time as, notwithstanding that the process is largely automated, it is still dependent on the customers providing information and employees correctly capturing such information onto the loan origination system. This risk is mitigated to some extent by African Bank's systems, processes and internal controls. For more information see "*Investor Considerations and Risk Factors – The Issuer is exposed to operational risk*". Every breach detected is taken seriously and fully investigated with disciplinary action instituted against employees where relevant and corrective action taken to put the customers in the position they would have been in had the breach not occurred. However, no assurance can be given as to the effectiveness of such mitigating features. See further "*Investor Considerations and Risk Factors – The Issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures*".

## RISK MANAGEMENT

### **Overview**

The Bank believes that the management of risk is fundamental to its strategy. The Bank's risk management approach is a board approved risk management methodology and philosophy to ensure adequate and effective risk management. The Bank believes that the risk management methodology provides regulatory principles that, together with the risk management approach, will ensure optimum

return to the Bank through the application of the following core principles:

- clear assignment of responsibilities and accountabilities;
- group-wide risk management framework and process;
- the identification of uncertain future events that may influence the achievement of strategic objectives; and
- the integration of risk management activities within the Bank.

### **Risk Management Philosophy of the Bank**

Risk in African Bank is managed at the ABIL Group level. The risk management governance structures of the ABIL Group cascade from ABIL's board to its subsidiaries, including African Bank. Therefore, African Bank's risk management policies are consistent with those of the ABIL Group.

ABIL's board believes that its objectives can only be achieved by accepting a certain level of risk. ABIL's board of directors has strategically accepted a higher risk appetite for credit risk than most other credit lenders. This higher risk appetite is informed by an effective and efficient risk management philosophy and framework within the ABIL Group. ABIL views risk management as an inherent part of running a successful business, and seeks both to mitigate risk as well as to leverage risk in order to exploit potential opportunities. This approach provides a link between risk management and maximising shareholder value.

Policies and procedures are agreed for the ABIL Group to ensure control over all of ABIL Group's risk exposures. The ABIL Group's approach to risk management is based on governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. The ABIL Group applies a logical and systematic methodology to identify, analyse, assess, mitigate and monitor all known risks. The critical success factor is the alignment of the key fundamentals of governance, business objectives, stakeholders, ethics, policies, standards, strategies and compliance.

African Bank's approach to risk accepts and embraces risk management as a core competency that allows the business to optimise risk taking through objectivity and transparency, and seeks to ensure effective and efficient risk pricing in order to optimise returns within a chosen risk appetite.

African Bank's processes and procedures enable the board of directors of African Bank to assess key risks facing it. Existing controls are assessed on a regular basis and if necessary, adjusted. Thereafter, reports are generated and reviewed at regular intervals by the various sub-committees of the Board to enable effective monitoring of risk levels.

The Bank has completed the implementation of governance standards for all major risk types identified by it. All standards are applied consistently across the Bank and are approved by the Board and ABIL's board of directors, either through the Risk and Capital Management Committee (as defined below) or through the Audit Committee (as defined below), as appropriate.

### **Risk management objectives**

The Bank's risk management objectives are to ensure proactive identification, understanding and assessment of risks. This is executed through various risk management and governance mechanisms and risk management oversight bodies. These include:

- independent board committees (audit, risk and capital management, remuneration, directors' affairs, ethics and sustainability);
- cooperation in respect of risk management within all key operations throughout the Bank;
- fraud risk management through an independent forensic department; and
- an operational risk department operating as a partner to all business units to facilitate, coordinate and monitor effective risk management.

The risk management process is continuous, with well-defined procedures that support decision making by contributing a greater insight into risks and their potential impact. One of the objectives of the Bank's risk management philosophy is to ensure that mitigating strategies are geared to deliver reliable and timely risk management information.

### **Risk Governance Structure**

#### *Board and senior management*

The Board is ultimately responsible for the operations and financial stability of the Bank and approves the overall business strategy, which includes the overall risk policy and management of internal procedures. Senior management are responsible for overseeing the day-to-day management of African Bank.

Strong Board and senior management oversight forms the cornerstone of an effective risk management policy. The individuals comprising the Board and senior management are responsible for overseeing the development and maintenance of a framework to effectively manage risk within the ABIL Group. The internal risk measurement system is closely integrated into the day-to-day risk management processes of African Bank. Its output forms an integral part of the process of monitoring and controlling African Bank's risk profile.

The Board delegates the oversight responsibility to its Risk and Capital Management Committee with an annual review by the full Board. This is to be supported with reporting of business unit risk exposures and reports from internal audit on the effectiveness of the function.

#### *Sub-committee oversight*

The Board, in discharging its risk management responsibilities, is supported by two sub-committees, namely the Audit Committee and the Risk and Capital Management Committee. These committees are the oversight bodies for the implementation of adequate and effective internal control mechanisms as well as efficient risk management frameworks. They also review the overall effectiveness of risk management structures and response strategies.

#### *Independence of the risk management function*

The Banks Act requires an independent risk management function that is responsible for the design and implementation of the Bank's risk management framework. The function must be able to exercise professional judgment, make impartial recommendations and implement an effective framework for identifying, managing and monitoring risk. It must also be familiar with the risk profile and control structure of the business units.

African Bank's risk management policy consists of the following components:

- internal audit;
- forensic services;
- compliance; and
- legal.

### **Key Strategic Risks Identified**

The following key risks have been identified and the approach taken by African Bank to mitigate against its exposure to these risks has also been highlighted.

#### *Operational risk*

Operational risk is a risk of direct and indirect loss usually resulting from inadequate or failed internal processes, systems, people or external events.

While it is virtually impossible to totally eliminate operational risk, it is the duty of operational risk management to ensure that operational risk is well mitigated and properly managed.

The Bank has developed an operational risk framework and policy which was approved by the Board. The objective of the operational risk management function is to:

- focus on key risks in the group as well as individual business units;
- ensure that actual and potential operational risks are consistently identified, measured, monitored and managed in order to prevent unnecessary losses;
- develop policies, standards, procedures and systems to maintain and enhance the management of operational risk with emphasis on prevention of losses;
- continue to improve awareness and an appropriate operational risk management culture and accountability; and
- ensure regulatory compliance.

The operational risk function is responsible for:

- developing operational risks policies and procedures;
- giving guidance to ensure adequate implementation of policies and procedures;
- mapping business processes;
- facilitating risk identification;
- optimising business process for efficient risk management;
- preparing consolidated reports for executive, risk and board committees including loss database, overall risk profile and analysis;
- challenging business units/risk owners in identification of risks; and
- monitoring key risk indicators.

### ***Economic environment***

African Bank's growth and profitability is inextricably linked to the prosperity of the South African economy and its participants. Inflation and unemployment are two key indicators of increasing vulnerability in African Bank's targeted market segments. To mitigate this risk the Bank constantly tracks leading indicators in the economic environment that might suggest symptoms of economic or financial distress in those segments of the market that it targets. The Bank adjusts its underwriting and affordability criteria accordingly.

### **Competitive landscape**

Providers of unsecured lending are increasingly entering the market. This has resulted in a sharp increase in exposure to unsecured lending in South Africa, prompting calls from various government organisations including Parliament for much closer scrutiny of the unsecured lending industry. In light of this increased competition, as well as increased pressure on household spending, African Bank has identified and continues to manage this potential risk, in order to prevent the dilution of its market share. In addition, the Bank continues to engage closely with the South African Government and regulators to make sure that information in relation to its unsecured lending is shared, data is gathered and emerging trends identified. The Bank has further improved its own competitiveness through:

- active future target market segmentation;
- a substantial branch expansion program;
- a range of new and innovative products; and
- a new front end that will improve service to customers.

### ***Employees***

The long term success of any organisation is predominantly dependent on the quality and retention of staff and their commitment and dedication to the business. The failure to retain skilled employees or to

keep them motivated may lead to increased costs and deteriorating performance. Recent increase in competition and the substantial growth in African Bank's business has made the recruitment, retention and employee satisfaction a top priority for the Bank.

A number of strategies have been implemented to mitigate this risk, including an appropriate suite of reward and benefit structures for existing employees and ongoing refinement of an attractive employee value proposition. African Bank spends a significant amount of time and energy in dialogue with its employees, so as to ensure that they remain motivated and informed of its strategy.

#### ***Scalability of the business***

The Bank has substantial goals for the growth of the business over the short to medium term, and it is critical that all aspects of its business grow at the same pace, to ensure the success of its business model. To mitigate this risk, the Bank has identified certain initiatives that are central to its growth aspirations, such as:

- a more refined customer segmentation matrix;
- the role of technology in its future;
- its operating model;
- its financial model;
- its capital and funding;
- a redefined customer value proposition; and
- its employee strategies.

The Bank has undertaken a detailed project to review each of these aspects in terms of, amongst others, structure and scalability.

#### ***Credit risk***

Key to the success of African Bank's business, is the effective management of its credit exposures. The ongoing development of the Bank's underwriting models is dependent on the effective monitoring of credit risk metrics and trends. These metrics and trends inform the continual changes necessary to calibrate the underwriting models correctly and, to incorporate the effect of new risks as they emerge. This risk, together with the measures taken to mitigate against it, is discussed in further detail under the "Credit Risk" section below.

#### ***Capital, liquidity and funding risk***

The Bank is required to maintain adequate capital levels to safeguard its operations and stakeholders against liquidity risk and to enable growth.

Liquidity risk includes asset liability mismatch risk. The Bank manages liquidity risk significantly in excess of regulatory requirements and includes the requirements of stakeholders, including rating agencies and depositors, in determining its liquidity risk profile.

The Bank is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. If the Bank is unable to obtain sufficient funding due to adverse conditions in the capital markets, it may not be able to raise sufficient funds to achieve expected growth, fund acquisitions or to meet its ongoing financing needs. This risk together with mitigation measures is discussed in further detail under the 'Liquidity Risk' section below.

#### ***Information technology risk***

Uninterrupted and efficient availability of information technology services has become indispensable and forms an integral part of the daily operations and strategy execution of the ABIL Group. A regular assessment is undertaken by senior management to mitigate any risk of interruptions or non-availability of information technology services. More broadly, this assessment ensures alignment between the strategy and long term business needs of the ABIL Group and the ability of the information technology capacity to provide a cost effective execution thereof.

System capacity is regularly assessed and upgraded. Required people skills are regularly assessed to ensure the Bank stays abreast of developments and to ensure that optimum efficiency standards are maintained. The Bank has made considerable investment in its IT environment to ensure the availability of appropriate resources to provide the business with the expected levels of service.

### ***Regulation***

Non-compliance with existing regulation and lack of awareness of developments in regulatory frameworks may have a severe impact on the reputation and viability of the organisation. To mitigate such regulatory risk, the Bank has adopted a rigorous approach to all its regulatory responsibilities to ensure its due compliance and implementation with applicable regulations. Compliance risks are managed through internal policies and processes, which include risk management, legal and compliance.

The Bank has an ongoing engagement with the relevant regulatory authorities to keep pace with proposed regulatory changes and also understand the impact of such regulatory changes to its business. This enables the Bank to assess, in a timely manner, the preparation required to be made by it to implement the necessary changes, pursuant to such change in law or regulations.

### ***Society***

Failure of the Bank continually to consider its impact on society and its responsibility as a corporate citizen may lead to reputational risk and missed opportunities for the organisation to contribute to the growth of the nation. The Bank's vision is to have a positive impact on its society. The ABIL Group continuously evaluates its impact across all dimensions and uses its size, influence and financial strength to be a positive force in the development of South Africa.

### ***Growing the customer base***

The Bank's strategy is to continually improve its customer value proposition by translating scale and critical mass into greater customer value. To achieve and maintain this scale, the Bank's focus is to broaden its customer base in its chosen market segment. While attracting new clients remains core to growing the customer base, the Bank also emphasises customer retention and customer rehabilitation as part of its sustainability strategy. Focusing on new customers and growing customer numbers is necessary but not sufficient without focusing on customer retention.

### ***Managing costs***

As the Bank's business experienced significant growth in the last couple of years, costs have also increased compared to prior years. The Bank places deliberate focus on cutting costs in appropriate areas of its business while investing in other essential areas. Accordingly, substantial focus has been placed on rightsizing the cost base of the business and introducing efficiencies following the rapid expansion of the distribution network. A cost committee has been set up to oversee budgetary processes, cost monitoring and all cost intensive projects.

### ***Credit Risk***

The provision of unsecured loans and credit card finance remains the primary financial opportunity within the Bank. Accordingly, core competencies in terms of the underwriting, pricing and collection of unsecured credit are constantly progressed in order to deliver value to customers and create shareholder value.

As business volumes have grown, it has become increasingly necessary for the purposes of both making credit decisions and pricing, to standardise and automate the process. As a result, the focus has been on maintaining and improving:

- proprietary scoring models for underwriting, affordability assessment, portfolio performance and collection activity;
- customer and risk focused product development together with appropriate risk-based pricing to minimise cross-subsidisation;
- effective monitoring and understanding of the sensitivity of credit risk metrics trends to various risk parameters; and

- the architectural objective of a single set of business rules across all portfolios, delivered through a single decision making process.

The credit risk governance frameworks of Elleries and African Bank have been aligned to ensure consistency. Furthermore, the underlying credit policies, systems and process continue to be synchronised and improved.

#### ***Continuous development of proprietary credit scoring (underwriting) models***

The Bank views the taking of credit risk as one of its key competitive advantages in the market in which it operates. African Bank has developed proprietary probability models to predict both default risk and costs incurred by various customer segments. In this regard, the Bank's approach to the underwriting of credit is more aligned to that of insurance underwriting models, where there is an expectation that losses will occur and the key is to accurately predict the probability of such a loss occurring within a customer segment rather than trying to avoid it.

African Bank has, over a number of years, developed its own proprietary credit scoring and underwriting models, which are continuously refined or reinvented in order to segment the spectrum of risk more finely and more accurately. Key to this process is relevant and accurate data, and the Bank has many years of historical information, at an individual loan level and at portfolio level, which it uses to both underwrite and price its products. Scorecard change cycles tend to span two years, and this trend is again proving accurate. The current generation of application scorecards have proven to be more adaptive than originally anticipated and remain useful for their intended purpose.

#### ***Product development and appropriate risk based pricing***

Whereas access to credit is optimised through the underwriting process, the customer value proposition is enhanced through the appropriate construct of product terms and the pricing thereof.

There is an important interplay between capacity to assume risk and cost efficiency embedded within the Bank's underwriting process as well as the relationship of both of these with its weighted average cost of capital ("WACC"). These three components comprise the building blocks of the Bank's pricing and product models.

This principle has been a key strategic issue within the ABIL Group over the last eight years as it has moved along its price volume elasticity curve. Greater risk segmentation based on a differentiated probability of default across the customer base was a vital step in this process, as each risk segment has its own risk versus cost relationship, and the tipping point will occur at different points along this volume journey.

In developing its product terms, loan sizes and pricing, African Bank bases the price of each loan on the building blocks of the WACC, cost absorption and risk for the particular loan. Therefore, for a loan to a high-risk customer the WACC is weighted with a higher capital allocation and the cost as a proportion of the loan is higher as these loans are generally smaller and of a shorter duration. The converse is true for a low risk loan.

As loan sizes and/or term increase there is improved cost absorption, however at the same time risk increases. Initially, for every unit increase, the rate of improvement in cost absorption outweighs the incremental increase in risk, until a tipping point is reached and the relationship inverts. Given that the risk curve will also oscillate due to changes in the credit cycle, the business endeavours to position its underwriting models on the conservative side of the apex, in order to optimise this relationship.

Underwriting is done within a strict risk tolerance as approved by the board subcommittee that deals with risk matters. The minimum lifetime return on equity as well as the level of cross-subsidisation is described in the risk appetite. During Financial Year 2013, extensive analysis was done to quantify the elasticity of demand to price, term and loan size. These insights will be used in the future to optimise margins and take-up of credit granted.

#### ***Effective monitoring of credit risk metrics and trends***

Key to the ongoing development of African Bank's underwriting models is the effective monitoring of credit risk metrics and trends, as these inform the continual changes necessary to calibrate the underwriting models correctly and to incorporate the effect of new risks as they emerge. African Bank compiles an extensive monthly operations credit pack including refinement proposals based on the Bank's management's understanding of risk and volume sensitivities which is reviewed by its

operational credit committee (the “**Operational Credit Committee**”). These proposals then form the basis of a monthly review by the strategic credit committee (the “**Strategic Credit Committee**”). The Strategic Credit Committee in turn reports its findings to the Risk and Capital Management Committee on a quarterly basis. The objective of these metrics is to provide the Bank with a substantive basis for the early identification of key trends and risks that enable timely modifications to the underwriting processes, ensuring that unexpected outcomes do not adversely impact the business.

In terms of trends in the existing loan book, African Bank tracks credit vintages as a better and more immediate measure of portfolio risk than NPLs or arrears ratios. Credit vintage curves are analysed to track each month’s new loans as a separate portfolio and plot the cumulative proportion of each portfolio that migrates into various levels of default status as time passes, as measured by the number of missed contractual instalments.

Credit vintage curves are produced for every product, term and risk group combination, on a 30 and 90 days in arrears basis, to evaluate trends on a more granular basis, which may be missed at a portfolio level. Credit vintage curves can be best described as a risk emergence measurement tool, through which the portfolio is analysed in order to identify and understand the pockets/segments/micro-segments of risk. Where the vintage trend is lower than expected, additional risk may be taken and where risk is emerging more steeply than expected, remedial action can be taken.

#### ***Affordability management***

The affordability calculations utilized within the risk framework include a number of buffers to ensure that African Bank’s lending remains both sustainable in terms of repayment, and compliant in terms of the requirements of the NCA. These buffers are generally risk based to ensure that, as risk is extended, a larger buffer is evident.

In addition to the risk buffers, the living expense model, which is used to determine a reasonable minimum living expense level for the applicant based on age, income and gender, provides further comfort in this regard.

The risk buffers, in conjunction with the living expense model, continue to add an element of conservatism to the affordability calculations and are increased/decreased as the vintage micro-segments indicate either low or high risk.

#### ***Collection trends and adequacy of provisions***

From a provisioning perspective, actual receipts relative to expected cash flows and the migration of loans into NPLs (and between collection platforms) are monitored on a monthly basis to discern emerging trends and to inform credit decisions and provisions.

Impairment provisions for the African Bank portfolio are determined in accordance with the requirements of IAS39. The Bank is comfortable that its IAS39 models accurately reflect the risk in the portfolios and forecast the future cash recoveries on NPLs. The cash recovery forecasts underlying the IAS39 models are regularly back-tested against historical cash receipt levels and are also adjusted to reflect management’s expectations around future cash collections levels.

### **Capital, Liquidity and Funding**

#### ***Basel III and capital adequacy***

Historically, the SARB has set more stringent capital adequacy requirements for South African banks than the international norm, which helped protect South Africa’s banks during the recent global economic and financial crisis. However, a complex and rapidly evolving regulatory environment reinforces the need for more vigorous capital management and planning. Basel III, which introduces higher quality capital requirements, was implemented in South Africa by the SARB with effect from 1 January 2013, with various phases and transitional arrangements becoming effective each year through 31 December 2018. For a more detailed discussion of the impact of Basel III, see “*The Banking Sector*” and “*Relevant Regulation in South Africa*” - *Basel III*” and “*Capital and Liquidity Adequacy*”.

African Bank maintains a conservative approach to capital and liquidity management, which includes maintaining appropriate capital adequacy levels, prudent liquidity management, targeted to maintain a net positive liquidity gap across all periods, and a cautious dividend policy that conserves sufficient

capital for growth.

### ***Targeted Capital Adequacy***

The ABIL group manages its targeted capital levels and mix, both at ABIL Group and at the Bank level, taking into account the following factors:

- Regulatory requirements.
- Internal capital requirements.
- Other stakeholder expectations including rating agencies and shareholders.

The capital adequacy ratios for both ABIL and African Bank, including unappropriated profits, have incorporated the impact of Basel III and the year-end levels were all at or above ABIL's internal capital adequacy requirements.

### ***Recent rights offer by ABIL***

In August 2013, the board of directors and executive management of ABIL resolved to strengthen ABIL's capital base in anticipation of the phased capital requirements under the Regulations Relating to Banks.

On 5 August 2013, ABIL announced its intention to raise R5.5 billion in equity capital through a rights offer (the "**Rights Offer**") which opened on 18 November 2013.

The proceeds of the Rights Offer were received on 9 December 2013, and ABIL successfully raised R5.48 billion at a subscription price of R8 per rights offer share. The Rights Offer was oversubscribed by approximately 64 per cent.

ABIL utilised R4.750 billion of these proceeds to capitalise African Bank as at 20 December 2013. The proceeds of the Rights Offer has served to improve ABIL's and African Bank's capital ratios under the Regulations Relating to Banks.

### ***Liquidity and Funding Risk***

Liquidity risk represents the potential that the maturity profile of the Bank's asset and liability portfolio is such that it is unable, at some point in the future, to meet its maturing liabilities and other operational demands for cash with available cash resources. The Bank has continued to deploy an appropriate liquidity profile for the year under review, given the sales environment on the one hand and the still volatile capital markets conditions on the other hand.

The level of total Bank funding has increased to R54.4 billion in September 2013, up 18 per cent. from R46.0 billion in the prior year, primarily as a result of the growth in the advances book. The cash reserves have remained fairly steady on a yearly basis, being R3.0 billion as at 30 September 2013 against R2.9 billion for the corresponding date in 2012. As at 31 March 2014, African bank's total funding liabilities were R54.4 billion and its total cash reserves were R6.6 billion (compared to R53.58 billion and R4.8 billion, respectively, as at 31 March 2013).

Notwithstanding the increase in the absolute level of the Bank's funding, the average funding cost has fallen by an absolute 0.6 per cent during Financial Year 2013. Over the year, as a result of the larger funding base, the interest expense has increased to R4.5 billion in Financial Year 2013 from R3.8 billion in Financial Year 2012. Over the six months period ended 31 March 2014, the average funding cost has increased to 8.7 per cent. (compared to 8.6 per cent. for the six months to 31 March 2013).

African Bank targets primarily long term wholesale funding sourced from a broad base of large financial institutions and asset managers in the local and offshore markets. The key funding and liquidity strategies are as follows:

- between 45 per cent. and 60 per cent. of funding is targeted to be raised via the Programme and the EMTN Programme. Since inception of the Programme in 2001 and as at the Programme Date the Bank has issued 45 listed bonds to the value of R28.6 billion under the Programme, with maturities ranging from six months to seven years;

- between 40 per cent. and 55 per cent. is funded via the internal treasury division, with a diverse range of institutional and money market investors on a day-to-day basis. The Bank relies on minimal funding from the interbank market, although it also focuses on obtaining committed inter-bank facilities for African Bank;
- the Bank enjoys significant relationships with global development finance institutions, which have provided substantial levels of unsecured subordinated funding to date;
- as at 31 March 2014, the EMTN Programme had been utilised on nine occasions since it was established for a total of U.S.\$767 million, CHF 555 million and R150 million. It is likely that the EMTN Programme will provide 20 per cent. to 30 per cent. of total funding from the capital markets in Europe and Asia in the years ahead;
- the Bank strives to maintain a positive liquidity gap and has continued to target the ratio of average duration of its liabilities exceeding the average duration of its assets. This ensures that in the short to medium term, cash is flowing in from assets faster than it is flowing out from maturing liabilities, thus avoiding a potential liquidity crisis. As the Bank continues to grow its global reach into diverse pools of funding, it may well be appropriate to reduce the historically very conservative average duration of its liabilities, but this will be conservatively managed in the years that lie ahead. The Bank manages liquidity on a rolling 3-month basis, whereby it maintains sufficient cash to cover maturing liabilities, and contractual expenses continues to fund sales commensurate with market conditions during that period; and
- the Bank aims to have no more than 20 per cent. of its total funding raised with a term of less than one year (measured in terms of original contractual term), although this ratio is arguably too conservative, relative to the significantly increased reach which it now enjoys in diverse capital markets. Once again, any transition to a larger proportion of short-term funding will be very conservatively and cautiously managed in the years ahead.

The Bank continues to develop new relationships aimed at expanding its funding sources. As a result of the successful bonds listed on the London Stock Exchange under the EMTN Programme since July 2011, the Bank's funding counterparties have increased significantly. The four issuances under the EMTN Programme listed on the SIX Swiss Exchange have further widened the pool of funding counterparties available to the Bank. As part of this enterprise, during Financial Year 2012 the Bank has begun piloting a programme to attract term retail deposits. This retail deposit programme was extended on 1 October 2012 to a broader section of the market. The savings products are expected to gain traction through the establishment of a branch distribution platform and further retail savings initiatives in Financial Year 2014.

### **Credit ratings**

Given the predominant reliance on wholesale institutional funding, it is important for the Bank to maintain a public credit rating on its senior debt funding. African Bank is currently rated by Moody's Investors Service ("**Moody's**").

Since 2002, the long term national scale rating has steadily improved from a BBB+ to the high of A1.za ("**A+**" equivalent), which has subsequently been reduced to its current level of A3.za. This trend resulted in a wider universe of potential institutions that have interest to invest in the Bank's debt instruments and contributed to the growth in the funding base over the last few years.

As of August 2008, Moody's assigned global local currency and foreign currency deposit ratings to African Bank of Baa2 (long term) and P-2 (short term).

On 4 March 2013, Moody's downgraded African Bank's global senior debt and deposit ratings by one notch to Baa3/Prime-3, from Baa2/Prime-2. Concurrently, African Bank's local national scale issuer ratings were also adjusted to A2.za/P-1.za from A1.za/P-1.za.

On 29 May 2014, Moody's downgraded African Bank's global senior debt and deposit rating by a further one notch to Ba1/Not Prime, from Baa3/Prime-3. Concurrently, African Bank's local national scale issuer ratings were also adjusted to A3/P-2.za from A2.za/P-1.za. In addition, all long term ratings have been placed on review for further downgrade. Moody's have stated that the conclusion of this

review will likely follow the publication of ABIL's trading update for the nine months ending 30 June 2014.

Should the Bank obtain and formally accept a credit rating given by a rating agency to the Programme Memorandum or any Note issued by African Bank under the Programme, such credit rating will be included in the Programme Memorandum or in the Applicable Pricing Supplement, as the case may be. An amendment to any such rating will be announced on SENS.

### **Interest rate risk management**

In line with the philosophy relating to financial risk, the Bank has a policy of maintaining a neutral view to interest rate risk. Given that the nature of the loans that the Bank offers are predominantly at fixed rates of interest, funding is raised primarily at fixed rates to match this profile. Most variable rate funding is swapped into a fixed rate exposure by way of a directly matched interest rate derivative or an appropriate inflation derivative. To the extent, however, that the growing credit card portfolio exposes the Bank to floating interest rate returns, an increasing portion of the funding raised by the Bank will be done on a floating rate basis, thus matching its assets and liabilities. This strategy results in a steady funding cost and low interest rate exposure through the cycles.

Despite the Bank's policy of maintaining a neutral view, there will inevitably be some residual interest rate exposures across the yield curve, and in this regard the Bank would only enter into derivative hedging instruments where the exposure exceeded internal tolerance thresholds and the cost of the hedge is economically viable.

The ABIL Group Risk and Capital Management Committee (the "**Risk and Capital Management Committee**") has set a limit for the effect of a 2 per cent. parallel movement in the treasury yield curve to be no more than 1.75 per cent. of headline earnings of the Bank on a 12-month basis.

Financial assets and liabilities are accounted for, in the main, on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk. The return on surplus cash balances placed; on call money market accounts varies with changes in interbank interest rates as does the interest payable on floating rate bond liabilities and some retail deposits, resulting in cash flow interest rate risk.

Floating rate bond liabilities may be hedged using interest rate swaps in order to match positions. The use of interest rate swaps mitigates the changes in cash flows of variable rate bonds issued by the Bank. The objective is to protect the Bank from uncontrolled changes in future interest cash flow commitments that arise from changes in market interest rates and re-borrowing of current balances that can have a negative impact on the value of the business and annual earnings. The use of interest rate swaps has the economic effect of converting borrowing from floating rates to fixed rates. Under the terms of the interest rate swaps, the Bank agrees with other banking entities to exchange, quarterly, the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts. Retail advances are only offered on fixed rate terms.

As at 30 September 2013, a 1 per cent. increase in interest rates would have an after tax R19 million negative impact on the Bank's headline earnings over 12 months.

### **Hedging and market risk**

The Bank avoids exposing itself to any other financial market risk, such as foreign currency, equity or commodity price movement risk. As the EMTN Programme is utilised to raise funding in foreign currencies, the Bank seeks to neutralise any cross currency movement risk, by way of entering into appropriate cross-currency swaps, both as to the settlement of the capital in local currency terms, and the settlement of future coupon and capital payments in foreign currency terms.

The Bank invests its cash resources predominantly in the short term interbank money markets, and limits are set for exposures to any bank based on its capital base and stability.

The only derivative contracts the ABIL Group has entered into relate to:

- the hedging of the ABIL Group's long term share based incentive scheme, using a hedge contract which is a total return swap on the underlying ABIL share, which matches the profile of the long term incentive plan exposure;
- the hedging of residual interest exposure as discussed under interest rate risk management;

- cross currency swaps to hedge foreign exchange risk arising from bonds issued under the EMTN Programme; and
- inflation linked derivatives to hedge inflation risk arising from the issuance of inflation linked bonds.

The Bank does not undertake any speculative trading in derivatives.

### **Tax risk**

Tax risk ordinarily arises when certain transactions are structured in order to optimise the tax benefits of such a transaction. In line with ABIL's stance on risks not associated with its core business, African Bank has taken a conscious decision not to enter into any transactions which may be structured on a tax aggressive basis nor that may be dependent on tax base. Appropriately qualified and experienced internal and external tax resources are used extensively to review business practices to ensure proper compliance with tax legislation.

### **EMPLOYEES**

As at 31 March 2014, the Bank had 5,303 employees (compared to 5,230 employees as at 30 September 2013 and 5,182 employees at 30 September 2012).

The Bank would be compromised in its ability to deliver value to its stakeholders if its staff did not remain committed and trained to deliver effectively on the Bank's operational and strategic objectives. Therefore the Bank believes strongly in attracting and retaining suitably qualified staff and compensating them accordingly. African Bank strives to be an employer of choice within its sector and will continue to endeavour to build a suitable and sustainable culture and environment for its employees. The Bank's basic remuneration comprises fixed guaranteed salaries for all permanent employees and sales commissions paid to sales staff. Incentive payments are paid to employees whose performance is above expectation having regard to their basic remuneration, and for contributing towards the creation of sustainable shareholder value. The incentive structures are designed to encourage and reward superior performance at all levels of the organisation, but are more focused at the management and executive level. The integrated incentive structure covers both short-term cash incentives and a long-term incentive plan.

Promoting and maintaining a harmonious relationship with its employees and fostering relations with its unions are core objectives of the Bank. A significant number (approximately 56.5 per cent.) of its non-managerial employees are represented by trade unions. The Bank has not experienced any strikes or work stoppages and considers its employee relations to be excellent.

African Bank values engagement with its employees. Strong and increasing participation (over 84 per cent. for Financial Year 2012) in bi-annual employee surveys demonstrate the commitment of its employees. Roadshows are held each year, engaging with more than 5,000 African Bank employees, as well as smaller groups of customers. The roadshows provide the opportunity for the various executive teams to engage with the Bank's employees in person.

Recent staff initiatives include the launch of interest-free study loans, a financial planning tool, staff loans, credit cards, funeral coverage, balanced life and diversity workshops and health risk assessments. African Bank and the ABIL Group also utilise a variety of social media platforms to engage with its employees, including Facebook, Twitter and various blogs.

### **PROPERTY**

As at 30 September 2012, the Bank held freehold title to land, property and equipment with a net book value of R527 million. This value decreased to R488 million as at 30 September 2013 and, as at 31 March 2014, was R486 million.

## **INSURANCE**

All insurance coverage for the ABIL Group (including African Bank) is placed at the ABIL level.

ABIL has comprehensive insurance coverage, which includes the following:

- professional indemnity cover;
- directors' and officers' liability insurance;
- assets and liabilities insurance; and
- crime and civil liability cover.

ABIL's crime cover protects it against any financial loss suffered as a result of fraud, premises risk, transit, forgery and fraudulent alteration, forged securities, counterfeit currency, and also provides cover against computer crime.

ABIL's professional indemnity insurance protects it against claims for any financial losses suffered by a third party as a result of negligence, dishonesty, fraud, malice or criminal act or omission by its employees.

ABIL's claims against its insurance have historically been low. Further, ABIL conducts an annual benchmarking review of the coverage and terms of its policies in order to ensure that the level of insurance cover available is adequate.

## **INFORMATION TECHNOLOGY**

Uninterrupted and efficient availability of IT services is indispensable for African Bank, and IT forms an integral part of the daily operations and strategy execution of African Bank. There is a constant and significant level of demand on IT resources to deliver technology solutions to support business growth as well as regular system upgrades, replacements and conversions.

IT plays an important role in enabling the strategic direction of African Bank and ensuring effective and efficient processes and activities within African Bank. Regular assessments are conducted by the group to ensure that its IT infrastructure and capacity are sufficient to satisfy the demands required in order to conduct its business in accordance with its strategy, and to achieve its technical objectives.

System capacity is regularly assessed and upgraded where necessary to take advantage of scale, efficiencies and cost reductions. Required personnel levels and skills are regularly assessed to ensure the group stays abreast of developments and to ensure that optimum efficiency standards are maintained. The ABIL Group has made considerable investment in its IT resources since the first half of 2012 to decrease redundancy and increase availability, and to ensure that it has the right resources to provide the business with the required levels of service.

IT risk management within the Bank not only involves securing Bank information and systems, but also entails the application of risk management principles to ensure efficient, reliable and timely delivery of information. See "*Risk Management – Key Strategic Risks Identified – Information technology risk*".

### **Disaster recovery plan**

African Bank regularly reviews its critical operations and their preparedness to withstand any unexpected business disruptions. Specifically, African Bank continually assesses methods to minimise down-time and speed up recovery strategies.

The ABIL Group (including the Bank) possesses a board-approved business continuity plan, which relates to the real-time availability of systems and IT, and includes disaster recovery. The plan is reviewed annually, and infrastructure at the off-site disaster recovery centre is tested annually. Testing includes the simulation of a disaster event during which key users of systems affected are requested to test the functionality of the recovered system at the disaster recovery centre.

The Bank has taken key steps to minimise disruptions from power outages, such as installing generators and uninterrupted power supply capabilities at the central offices. The Bank has the ability to switch its main debtor management and front-end system to run interchangeably between the disaster recovery and live sites, reducing potential downtime to less than 30 minutes in the event of a disaster.

Additionally, appropriate insurance policies exist to provide effective cover against business continuity disruptions.

## **MANAGEMENT**

### **Corporate Governance**

The board of directors and senior management are committed to the highest standards of corporate governance and strive to meet the highest moral and ethical business standards, as well as sound and transparent business practices. The ABIL Group embraces the principles of good corporate governance in order to ensure that an ethical foundation exists which promotes, inter alia:

- Responsibility – by assuming responsibility for the actions of the Bank and being willing to take corrective actions to keep the Bank on a strategic path, that is ethical and sustainable;
- Accountability - by being able to justify its actions and decisions to shareholders and other stakeholders;
- Fairness - by giving fair consideration to the legitimate interests and expectations of all stakeholders of the ABIL Group; and
- Transparency - by disclosing information in a manner that enables stakeholders to make an informed analysis of the ABIL Group's and Bank's performance and sustainability.

### **Application of King III**

In September 2009, the King Commission released its revised King Report on Governance for South Africa (the “**King Report**”) and the King Code for Governance Principles in South Africa (the “**Code**”) and together with the King Report, “**King III**”). The Board is committed to complying, in all material respects, with the principles contained in King III, as well as to the additional requirements for good corporate governance stipulated in the JSE's Socially Responsible Investment Index (“**SRI**”). The Bank has performed a thorough review of the implications of King III and, where appropriate, the corporate governance structure has been amended to comply with the Code, which became effective on 1 March 2010.

The Bank complies with all aspects of the Code save that the fees for non-executives of African Bank are fixed. The fixed fee basis works more efficiently for the Bank because it has a performance appraisal system to deal with non-attendance.

### **Board of Directors**

The Board, which comprises the same persons as ABIL's board of directors, is ultimately accountable for the performance and affairs of African Bank. The Board is responsible for the oversight of controls, the long-term strategic objectives, shaping the values by which African Bank is managed and determining the risk parameters for its business. The Board regards good corporate governance as critical to the success of the Bank and is therefore committed to applying the principles of good governance, transparency, integrity, accountability and responsibility in all its dealings when acting on behalf of African Bank.

The Board has adopted a charter which defines the governance parameters within which it operates. This charter sets out specific responsibilities to be discharged by the Board collectively, as well as the responsibilities of its individual members. The ABIL Group has an approved term limit policy in respect of the ABIL's board of directors and the Board which limits the chairman of the Board's service tenure to a maximum of ten years. The service tenure of non-executive directors is limited to a term of six years which may be extended for a further two years.

The Board consists of 11 directors, classified as independent non-executive, and executive directors respectively. African Bank strives to ensure that the size, diversity and demographic representation of its Board make its management effective. African Bank is currently managed by four executive directors and seven non-executive directors (all of whom are deemed independent non-executive directors). The members of the Board as at the date of this Programme Memorandum are listed below.

<u>Name</u>	<u>Title</u>	<u>Director Since</u>
Leonidas Kirkinis	Managing Director, Executive Group Chief Executive Officer	1 July 1997
Nithiananthan Nalliah	Group Chief Financial Officer, Executive	5 May 2009
Mutle Constantine Mogase	Chairman, Independent Non-Executive	12 March 2007
Nicholas Adams	Independent Non-Executive	1 February 2008
Robert John Symmonds	Independent Non-Executive	21 May 2009
Advocate Mojankunyane Florence Gumbi	Independent Non-Executive	1 March 2011
Ntombi Langa-Royds	Independent Non-Executive	15 March 2011
Jacobus Dorotheus Maria Gerardus (Jack) Koolen	Independent Non-Executive	15 March 2011
Morris Mthombeni	Independent Non-Executive	16 September 2013

The business address of the members of the Board is the Bank's registered address at 59 16<sup>th</sup> Road, Midrand, 1685, South Africa. All of the directors of the Board are South African nationals, it being noted that Jack Koolen is a Dutch citizen but has permanent residency in South Africa.

Further information in respect of the members of the Board is set out below.

***Leonidas Kirkinis (54)***

<b>Qualifications</b>	BCom, BAcc
<b>Business Address</b>	59 16th Road Halfway House Midrand South Africa
<b>Nationality</b>	South African
<b>Current Directorships</b>	Executive director of ABIL, African Bank and executive chairman of Ellerines. Executive director of UPbeatprops 167 (Proprietary) Limited, Helios Air Charters (Proprietary) Limited, Octavia Investments (Proprietary) Limited and Snowy Owl Properties 284 (Proprietary) Limited.
<b>Past Directorships</b>	Seriti Sa Batho Enterprise Development (Proprietary) Limited.
<b>Profile</b>	Mr Kirkinis, currently chief executive officer of ABIL and managing director of African Bank, founded ABIL (previously Theta Group Limited) in partnership with Mr Gordon Schachat. Mr Kirkinis guided ABIL through the various mergers, acquisitions and the operational establishment of present day ABIL.

*Nithiananthan Nalliah (54)*

**Qualifications**

B Compt (Hons), (Unisa), Post Graduate Diploma in Tax Law (RAU), ACMA, CA (SA)

**Business Address**

59 16th Road  
Halfway House  
Midrand  
South Africa

**Nationality**

South African

**Current Directorships**

Executive director of ABIL, African Bank, Standard General Insurance Company Limited, ABIL companies, Stazione Properties (Proprietary) Limited, Highly Commended Investments 801 (Proprietary) Limited, Magnolia Ridge Properties 272 (Proprietary) Limited and Alpha King Capital Limited. Non-executive director of Eyomhlaba and Hlumisa.

**Past Directorships**

Executive director of Cantilana Investments 801 (Proprietary) Limited.

**Profile**

Mr Nalliah joined ABIL in March 2006 and became the ABIL Chief Financial Officer in October 2006.

*Mutle Constantine Mogase (49)*

**Qualifications**

Non-Executive Chairman

BCom (UCT), Executive Development Programme (Baruch College New York), Graduate Diploma in Corporate Governance (Graduate Institute of Management Technology, Johannesburg).

**Business Address**

Vantage Capital  
1st Floor  
3 Melrose Boulevard  
Melrose Arch  
Johannesburg  
South Africa

**Nationality**

South African

**Current Directorships**

Non-executive chairman of ABIL and African Bank. Non-executive director of Kwikspace Modular Buildings (Proprietary) Limited, ECI Africa Consulting (Proprietary) Limited, JP Morgan Advisory Board, Global Pact Trading 125 (Proprietary) Limited, Business Venture Investments No 1041 (Proprietary) Limited, Air Liquide Advisory Board (Proprietary) Limited, Fluxrab Investments No 192 (Proprietary) Limited, Fluxrab Investments No 200 (Proprietary) Limited and Fluxrab Investments No 72 (Proprietary) Limited. Executive chairman of Vantage Capital Group (Proprietary) Limited.

**Past Directorships**

Vantage Capital Investments (Proprietary) Limited, Vantage Capital Fund Managers (Proprietary) Limited, Vantage Capital Albimix Investments (Proprietary) Limited, Vantage Capital Comcorp Investments (Proprietary) Limited, Vantage Capital Incwala Investments (Proprietary) Limited, Vantage Capital Investments 2 (Proprietary) Limited, Vantage Capital Investments III (Proprietary) Limited,

Vantage Capital Investments IV (Proprietary) Limited, Vantage Co Investments (Proprietary) Limited Vantage Trustees (Proprietary) Limited, Incwala Platinum (Proprietary) Limited, Comcorp Holdings (Proprietary) Limited, Comcorp Online (Proprietary) Limited, SA Venture Capital and Private Equity Association NPO, Tonoc Investments (Proprietary) Limited, Vox Telecom Limited, MMR Equity Capital (Proprietary) Limited, Newpleiad Africa Investments (Proprietary) Limited, Stangen, Africa Construction (Proprietary) Limited, Ahang Developments (Proprietary) Limited and Drimac Corporate Services (Proprietary) Limited.

**Past Business Insolvency**

Mr Mogase was a director of Africa Construction (Proprietary) Limited which became insolvent in 2000. This company reached resolution with creditors and this company is awaiting final deregistration.

**Profile**

Mr Mogase has been an independent non-executive director of ABIL and African Bank since 2007 and currently serves as the non-executive chairman of ABIL and African Bank. He is currently the executive chairman of Vantage Capital Group. He was chairman of the Micro Finance Regulatory Council (MFRC) and it was during his tenure that the NCA was developed.

*Nicholas Adams (54)*

**Qualifications**

BCom (Hons), CTA (UCT), ACMA

**Business Address**

23 Eden Nature Reserve  
The road to Sabie  
Nelspruit  
1200  
South Africa

**Nationality**

South African

**Current Directorships**

Non-executive director of ABIL, African Bank, MKP Management Holdings (Proprietary) Limited, Swanvest 203 (Proprietary) Limited, Findlay's Properties No 5 (Proprietary) Limited, Uplands College NPO and Uplands College Properties (Proprietary) Limited. Executive director of TukTuk Investments (Proprietary) Limited and Walter H. Adams (Kimberley) (Proprietary) Limited and Portion 14 of portion 60 Buffelsfontein CC and Sailing Sometime CC.

**Past Directorships**

Garden of Development Company (Proprietary) Limited and Mountain Springs Estate CC.

**Past Business Insolvencies**

Mr Adams is actively involved in investments in the venture capital market. Purple Heron Investment Holdings (Proprietary) Limited was one such investment which was unable to continue trading successfully and was liquidated in 2001. Similarly, Sunesi Clinical Systems was liquidated in 2001 when it was unable to continue trading successfully. Maurice Kerrigan (Proprietary) Limited went into

voluntary liquidation approximately 6 years ago.

**Profile**

Mr Adams is a chartered accountant by training who spent six years as a partner at Deloitte, in the consulting division. He is currently a private equity investor investing own funds in a variety of unlisted investments mostly venture or development capital in the IT, training and tourism/wildlife industries.

***Morris Mthombeni (40)***

**Qualifications**

BProc, LLB, BJuris, MBA (Finance)

**Business Address**

59 16<sup>th</sup> Road  
Halfway House  
Midrand  
1685  
South Africa

**Nationality**

South African

**Current Directorships**

Non-executive director of ABIL, African Bank, Public Affairs Research (a non-profit organisation) and Vilakazi Street Kapital (Proprietary) Limited. Executive director of Inno-Phemba Investments (Proprietary) Limited and PEN (a non-profit organisation).

**Past Directorships**

Executive director of MMI Holdings Limited and its subsidiaries. Non-executive director of FirstRand International Wealth Management (based in the Channel Islands).

**Profile**

Mr Mthombeni has more than 21 years experience in insurance-based financial services, including previously as CEO of Momentum Investments Limited. He has 15 years experience at executive level and has served on the boards of a number of Momentum Investments Limited's subsidiaries. Mr Mthombeni is currently studying towards a doctorate in board leadership at the Gordon Institute of Business Science.

***Robert John Symmonds (54)***

**Qualifications**

BCom (Hons) (UCT), Strategic Banking Programme (IMD-Laussane), Executive Development Programme (GIMT), CA (SA)

**Business Address**

Lombard Insurance Group  
Ground Floor  
Building C  
Sunnyside Office Park  
2 Carse O'Gowrie Road  
Parktown  
Johannesburg  
South Africa

**Nationality**

South African

**Current Directorships**

Non-executive director of ABIL, African Bank, the ABIL Group insurance companies, PtyProps211 (Proprietary) Limited, Helm Underwriting Management Services (SA) (Proprietary) Limited, BrightRock (Proprietary) Limited, Leppard and

Associates (Proprietary) Limited, Cape Finance Corporation Limited, HCV Underwriting Managers (Proprietary) Limited, Consort Technical Underwriting Managers (Proprietary) Limited, Cast Arena Trade and Invest 87 (Proprietary) Limited, Gatewin Holdings Limited, Phaphama Entrepreneurs (Proprietary) Limited, New Africa Holdings (Proprietary) and Phaphama Investments (Proprietary) Limited. Executive director of LomHold (Proprietary) Limited and its subsidiaries.

**Past Directorships**

Non-executive director of Umlimi Underwriting (Proprietary) Limited, Umlimi Underwriting Management Agency (Proprietary) Limited, PinnAfrica Insurance Underwriting Managers Company Limited, Cape Finance Corporation (Proprietary) Limited and Mpumalanga Petroleum (Proprietary) Limited.

**Profile**

Mr Symmonds is currently the managing director of Lombard Insurance Company Limited. He is responsible for the overall implementation of strategies developed in conjunction with the board of directors.

As the previous chief executive officer of Mercantile Lisbon Bank Holdings, Mr Symmonds was primarily responsible for the overall implementation of strategies developed in conjunction with the board of directors, the operational management, risk management, resourcing, human resources, reporting to the market, relationships with regulators and managing that bank through a difficult time within the small banking sector and some significant challenges for that bank.

*Advocate Mojankunyane Florence Gumbi (55)*

**Qualifications**

B.Proc, LLB, Certificate in Trial Advocacy (University of Texas in Austin, USA)

**Business Address**

11 Cadiz Crescent

Dainfern Ridge  
2000

South Africa

**Nationality**

South African

**Current Directorships**

Non-executive director of ABIL, African Bank, Standard General Insurance Company Limited, Relyant Life Assurance Company Limited, Relyant Insurance Company Limited and Customer Protection Insurance Company Limited. Executive director of Mojanku Gumbi Advisory Services (Proprietary) Limited.

**Past Directorships**

N/A

**Profile**

Advocate Gumbi has dedicated most of her legal career to public interest law. From 2009 to date she has been an advocate and a consultant. From 1994 to 2008 she was a special adviser to then Deputy President and President Thabo Mbeki. In this role

Advocate Gumbi was one of the lead negotiators for South Africa in the World Trade Organisation negotiations. Advocate Gumbi also served as President Mbeki's personal representative on the G8 and in the Progressive Governance group and participated in the activities of the World Economic Forum, both in the Southern Africa region and in Davos. She continues to be an active participant in this Forum. She has advised President Mbeki on domestic policy matters working to ensure a global presence for South African companies and has assisted many South African companies in their expansion globally.

***Nomalizo Beryl Langa-Royds (51)***

**Qualifications**

BA (Law), Bachelor of Law (LLB) (University of Lesotho)

**Business Address**

53 Curzon Road

Bryanston  
Johannesburg  
2000

South Africa

**Nationality**

South African

**Current Directorships**

Non-executive director of ABIL, African Bank, PPC Limited and Mpact Limited. Executive director of Faranani Investments (Proprietary) Limited and executive member of Nthake Consultants CC.

**Past Directorships**

Executive director of Greenleaf Centre for Servant Leadership (SA), Turnaround Management Association South African Chapter NPO, Candock Properties 11, Corprenewal (Proprietary) Limited, Blue Marlin Trading 146 CC and Life College Investments (Proprietary) Limited. Non-executive director of Respiratory Care Africa (Proprietary) Limited.

**Profile**

Ms Langa-Royds has 25 years experience in the human resources environment. She started a wholly owned black female corporation, Nthake Consultants CC, in 1999, specialising in human resources management and allied services.

Ms Langa-Royds has worked as Group Human Resources director at Independent Newspapers Limited, as Chief Executive: Human Resources for the SABC and as Group Human Resources director for Bevcan, a division of Nampak Limited. Currently, Ms Langa-Royds also serves on the audit committee of the Presidency and Department of Performance, Monitoring and Evaluation (DPME).

***Jacobus Dorotheus Maria Gerardus Koolen (53)***

**Qualifications**

BCom (Hogere Economische School Groningen, Netherlands), MBA (University of Witwatersrand)

<b>Business Address</b>	No. 1 – 13th Avenue Houghton Johannesburg 2000 South Africa
<b>Nationality</b>	Dutch
<b>Current Directorships</b>	Non-executive director of ABIL, African Bank, Ellerines and Retailcorp Brands South Africa (Proprietary) Limited. Executive Director of Reflect Advisory Services (Proprietary) Limited.
<b>Past Directorships</b>	Monitor Group South Africa (Proprietary) Limited.
<b>Past Business Insolvency</b>	Mr Koolen resigned from Monitor Group South Africa (Proprietary) Limited in 2008, which subsequently filed for liquidation but did not proceed to final liquidation.
<b>Profile</b>	<p>Mr Koolen is an independent adviser. In addition, he has lectured, on a part time basis, at the Gordon Institute of Business Studies (University of Pretoria's business school) in the areas of strategy, competitiveness and choice, integrating insights from competitive strategy, logic systems and behavioural economics.</p> <p>Mr Koolen has held non-executive board positions in the private sector (Edcon: 2001-2007) and in NGO's (CityYear since inception until 2008; CIDA University Advisory Board from inception until 2007), and was a member of the SA Health Ministerial Advisory Committee on Financial Reform (2009). He has worked as an independent adviser since September 2008, closely associated with the Monitor Group in the Middle East, and regularly advises the Government on a variety of issues. Mr Koolen has recently worked on issues of healthcare and education reform, crime reduction strategies, nutrition policy, and economic growth strategies. He has advised the Presidency (Monitoring and Evaluation), and the Gauteng Province on economic growth challenges, as well as working with several private sector clients (mining, healthcare, retail, banking, as well as the chairman of Eskom) in South Africa, in addition to serving customers based in Switzerland, the UK and Saudi Arabia. He is a Dutch citizen with residence in South Africa since 1983.</p>

#### **Period of office of board members**

All non-executive directors are appointed for specific terms and reappointment is not automatic. An approved term limit policy exists which can be accessed at [www.abil.co.za](http://www.abil.co.za). In summary the term limit policy provides as follows:

- the chairman of the board of directors shall serve for a maximum period of 10 years; and
- all other non-executive directors shall serve for a maximum period of six years, which may be extended for a further two years.

## **Board committees**

ABIL has a unitary board structure, with the ABIL and African Bank board comprising of the same directors. This governance structure ensures that the ABIL Group Committees (comprising the committees described and defined below) effectively deliberate, review and monitor the activities of African Bank.

The Board has established five permanent committees from amongst its members and has defined specific roles and responsibilities for them. The committees provide the Board with oversight and reports on their work at each Board meeting. The roles, responsibilities, duties and objectives of the committees are set out in the respective committee charters. In addition, the Operational Credit Committee and the Strategic Credit Committee are described under “*Risk Management – Credit Risk*” above.

### ***The ABIL Group Audit Committee***

The ABIL Group Audit Committee (the “**Audit Committee**”) comprises three non-executive directors of the Board. The members are elected by the Board from amongst the non-executive directors in compliance with the Banks Act.

The main purpose of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and integrated reporting and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards for the ABIL Group.

The Audit Committee has an independent role with accountability both to the Board and to the shareholders, but does not assume any management function.

### ***The ABIL Group Risk and Capital Management Committee***

The Risk and Capital Management Committee comprises four elected non-executive directors of the Board in compliance with the Banks Act.

The quality, integrity and reliability of risk management of the ABIL Group is delegated to the Risk and Capital Management Committee. The Risk and Capital Management Committee assists the Board in discharging its duties relating to the identification and monitoring of key risk areas and performance indicators of each company in the ABIL Group (including the Bank), relating to the high level risks within the business, credit risk, interest and liquidity risk, internal capital adequacy assessment process (“ICAAP”), internal capital allocation, regulatory capital requirements, operational risk, information technology risk, legal and insurance risk, and sustainability risk.

### ***The ABIL Group Remuneration and Transformation Committee***

The ABIL Group Remuneration and Transformation Committee (the “**Remuneration and Transformation Committee**”) comprises three non-executive directors of the Board. The role of the Remuneration and Transformation Committee, having regard to the law and the required standards of governance, is to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders by ensuring that employees of the ABIL Group (including the Bank), are appropriately and equitably compensated for their services (having regard to their performance) and are motivated to perform to the best of their abilities in the interests of all stakeholders.

### ***The ABIL Group Directors Affairs Committee***

The ABIL Group Directors Affairs Committee assists the Board in discharging its responsibility for ensuring the existence of adequate and effective corporate governance that is consistent with the nature, complexity and risks inherent in the Bank’s business. This ensures a balance of power and authority, such that no one individual has unfettered powers of decision making.

### ***The ABIL Group Ethics and Sustainability Committee***

The Ethics and Sustainability Committee was established in 2011 and comprises three non-executive directors of the Board. The responsibility of the committee, amongst other things, is to assist management in the formulation and implementation of policies, principles and practices to foster the sustainable growth of the ABIL Group.

### **Appointment of directors**

The appointment of directors to the Board is formal and transparent and a matter for the board of directors as a whole. All directors are appointed for specific terms and reappointment is not automatic. The appointment of directors is facilitated by the directors' affairs committee which also serves as the nominations committee. The nominations committee is constituted only of non-executive directors of whom the majority are independent. The nominations committee is chaired by the chairman of the Board.

All appointments are subject to approval from the SARB and fit and proper tests in terms of the Banks Act, as amended, the Companies Act, the JSE Listings Requirements and any other applicable legislation. All directors' appointments are subject to shareholder approval at the annual general meeting immediately following the date of their appointment.

### **Independent advice**

In allowing the Board to discharge its corporate responsibilities by exercising the care that an ordinary prudent person would exercise under similar circumstances, the Board and the Board committees may engage the services of external experts at the expense of African Bank.

### **Succession planning**

The remuneration and transformation committee and the directors' affairs committee review succession planning as a regular item on their respective agendas.

The directors' affairs committee of the board of directors, in line with its terms of reference, from time to time reviews the general composition of the board of directors and makes appropriate recommendations on the appointment of new executive or non-executive directors.

### **Conflicts of Interest**

The Board has adopted a number of principles for the purpose of regulating the conduct, ethics and operations of the Board, which are contained in the Board's charter. As part of this, Board members are obliged to manage all conflicts of interest to ensure that their position of trust and confidence may not be used to further their own interests. Directors are required to act in good faith, on an informed basis and in the best interests of African Bank. In this regard, all directors have access to the chairman of the Board and the chief executive officer of the ABIL Group in order to discuss potential conflicts. Directors are required to declare their interests in matters discussed at the Board meetings and to recuse themselves from discussions should there be a potential conflict of interest. There is no actual or potential conflict of interest between the duties of any of the members of the Board to the Issuer and their respective private interests or other duties.

### **Dealing in ABIL Securities**

In all cases a director may not deal in any securities relating to the ABIL Group without first receiving clearance to trade. The board of directors of ABIL has approved dealing in securities policy, which regulates the procedures that a director must follow prior to trading in any ABIL securities.

In terms of this policy, a director may not deal in any securities relating to ABIL without

- first advising two designated directors, one of which must be a non-executive designated director, in advance of the director's intention to trade in any securities relating to ABIL and
- after receiving clearance in writing from them.

In addition directors may not deal in securities during a closed period and the Board invokes a strict policy of prohibiting dealings in securities by all staff and associates during closed periods.

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## INVESTOR CONSIDERATIONS AND RISK FACTORS

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*The Issuer believes that the factors outlined below may affect its ability to fulfil its obligations under the 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. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. The value of the 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 below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it, or which it may not currently be able to anticipate. Accordingly, the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.*

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

*References below to the “Terms and Conditions”, in relation to Notes, shall mean the “Terms and Conditions of the Notes” set out above and references to a numbered “Condition” shall be to the Terms and Condition under the relevant Terms and Conditions set out above. Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in the Terms and Conditions, except to the extent that they are separately defined in this section or it is clearly inappropriate from the context.*

**Factors that may affect the Issuer’s ability to fulfil its obligations under the Notes issued under the Programme.**

### **RISKS RELATING TO THE ISSUER AND SOUTH AFRICA**

***Commercial and market risks could have an adverse effect on the financial condition and reputation of the Issuer***

The Issuer, as with other banks in South Africa and elsewhere, is exposed to commercial and market risks in its ordinary course of business, the most significant of which are geographic concentration risk, depositor concentration risk, credit risk, liquidity risk and operational risk. Geographic concentration risk relates to risks specific to a geographic location. Credit risk is the risk of loss due to non-performance of a counter-party in respect of any financial or performance obligations due to a deterioration in the financial status of the counter-party. Liquidity risk is the inability to discharge funding or trading obligations as and when they fall due at market-related prices. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Whilst the Issuer believes that it has implemented appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to control these risks adequately could have an adverse effect on the financial condition and reputation of the Issuer (see “*Risk Management*” in the section headed “*Description of African Bank Limited*” and the risk below headed “*The Issuer’s risk management policies and procedures may not have identified or anticipated all potential risk exposures*”).

#### ***The Issuer is exposed to geographic concentration risk***

The Issuer’s business is exclusively focused on the South African markets and therefore faces a geographic concentration risk. Any adverse changes affecting the South African economy are likely to have an adverse impact on the Issuer’s loan portfolio and, as a result, on its financial condition and results of its operations.

#### ***The Issuer is exposed to depositor concentration risk***

The Exchange Control Regulations restrict the export of capital from South Africa without the approval of the Financial Surveillance Department of the SARB. The Exchange Control Regulations limit the extent to which the Issuer can borrow funds from non-South African sources for use in South Africa. This has led to the Issuer, along with other banks in South Africa, being reliant on debt funding from South African corporates, particularly by local South African fund managers (that are the largest depositors and funders in the South African banking market). The major portion of the Issuer’s domestic funding is currently raised from fund managers in South Africa. However, legislation in South Africa restricts the exposure that such fund managers may have to an individual bank. The restrictions imposed by the Exchange Control Regulations also limit

individuals and corporates from making deposits outside South Africa. Relaxation or immediate elimination of current exchange controls may precipitate a change in the capital flows to and from South Africa. If the net result of this were to cause large Rand-denominated capital outflows, this could adversely affect South Africa's economy through possible depreciation of the Rand or an increase in interest rates (as South Africa has a fully floating exchange rate and a flexible interest rate policy), which could in turn have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer is exposed to credit risk***

The Issuer's business is subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from counterparties. Consequently, changes in the credit quality of the Issuer's customers arising from economic conditions or otherwise could reduce the value of the Issuer's assets, and require increased provisions for bad and doubtful debts. In particular, the Issuer's results of operations have been and will continue to be affected by the level of impairment charges. In addition, the Issuer provides unsecured lending and focuses on providing loans and other products to lower and middle income customers and, accordingly, its loan portfolio displays a higher proportion of impaired loans when compared to other large South African banks whose loan books are primarily composed of secured lending and loans to a broader spectrum of customers. As the Issuer has grown and further seeks to grow its loan book, net impairment charges have grown, and are likely to continue to grow, as a percentage of gross loans. Moreover, weakness in South Africa's economy and increasing unemployment has historically had, and will likely in the future have, an adverse effect on the credit quality of Issuer's loan portfolio and cause loan impairment charges and loan losses to increase. These risks could have a material adverse effect on the Issuer's business, financial condition and results of operations. The Issuer has established credit quality management policies and actively monitors credit exposure on an on-going basis to mitigate such risks. (See "Risk Management" in the section headed "Description of African Bank Limited").

***The Issuer relies to a significant degree on wholesale funding and any loss of reputation or investor confidence could make it difficult for the Issuer to access additional sources of funds on acceptable terms or at all and adverse capital and lending market conditions could adversely affect the Issuer***

Liquidity risk is inherent in much of the Issuer's business. Liquidity risk can arise due to reduced access to funding sources, including the lending markets, which could be attributed to market conditions generally or the perception of the Issuer in the credit markets.

The Issuer, to a greater degree than other banking groups in South Africa, is reliant on wholesale funding as opposed to retail deposits, given that the Issuer does not conduct itself as a retail bank. The Issuer expects wholesale funding to remain a significant element of its funding strategy. The Issuer's ability to access wholesale funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside its control, such as liquidity constraints applicable across the economy on a systemic basis, general market conditions and confidence in the South African banking system as a whole and the volume of trading activities, as well as other factors such as the Issuer's credit ratings and credit capacity, as well as the possibility that customers or funders could develop a negative perception of the Issuer's short-term and long-term financial prospects.

Recent conditions in the global capital and credit markets and, to a lesser extent, the impact of such conditions within South Africa has led to changes in the funding and liquidity environment and has had an impact on the global economy. Individual institutions have faced varying degrees of stress. Further, the capital markets in South Africa are less mature than other, more developed markets and less liquid as trading volumes are typically lower with fewer numbers of investors, resulting in greater volatility than developed markets. Therefore, there can be no assurance that the Issuer will be successful in obtaining additional sources of funds on acceptable terms or at all.

In addition, a critical loss of confidence in the Issuer's banking business or in banking businesses in South Africa more generally, could significantly impact the availability or terms on which the Issuer can obtain wholesale funding. This could result in a liquidity shortage which would have a material adverse effect on the Issuer's business, financial condition and results of operations.

Furthermore, any deterioration in the capital markets' perception of the Issuer's financial resilience, including its ability to maintain adequate capital adequacy ratios, could significantly increase its borrowing costs and limit its capacity to raise funds in the capital markets. This could have a material adverse effect on the Issuer's business, financial condition and results of operations. Although the Issuer believes that its level of access to

domestic and international interbank and capital markets and its liquidity risk management policy allow and will continue to allow the Issuer to meet its short-term and long-term liquidity needs, any maturity mismatches may have a material adverse effect on its financial condition and results of operations. Furthermore, there can be no assurance that the Issuer will be successful in obtaining additional sources of funds on acceptable terms or at all.

If the Issuer's traditional funding sources are unavailable, it would be required to utilise other, possibly more expensive sources to meet its funding needs. In the event that the cost of wholesale funding increases, it may affect the Issuer's cost of funds and profit, while a lack of availability of such funding could materially adversely affect the Issuer's future growth and funding.

***Volatility in interest rates may adversely affect the Issuer's interest income and cost of funds***

The Issuer's interest income and cost of funds vary according to prevailing interest rates, and are significant factors in determining the profitability of the Issuer. The Issuer earns interest from loans and other assets, and pays interest to its depositors and funders. In a low or declining interest rate environment, interest income tends to fall with an associated decline in the cost of funding. Conversely, in a rising or high interest rate environment, interest income tends to increase with an associated rise in the cost of funding. Failure to effectively manage the extent to which the change in interest income is offset by the change in the cost of funding, which is more challenging in a volatile interest rate environment, could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer is exposed to operational risk***

The Issuer's business is subject to operational risk, and losses can result from inadequate or failed internal processes, documentation, people, systems, fraud, equipment failures, natural disasters or the failure of external systems, including those of the Issuer's suppliers and counterparties. The Issuer's systems, processes and internal controls are designed to ensure that the operational risks associated with its activities are appropriately monitored and controlled. In addition, business resumption and disaster recovery processes have been implemented to mitigate operational risks inherent in the Issuer's business. Nevertheless, failure to manage these risks could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer is exposed to increased levels of government and regulatory intervention in the financial sector***

A number of lenders in South Africa, including African Bank, are or have been subject to investigations and reviews by the NCR for possible non-compliance with the NCA. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the financial sector. For more information see "Legal and Regulatory Proceedings – Investigation by the National Credit Regulator" and "Impact of future reviews and investigations as a result of regulatory and governmental oversight" in the section headed "Description of African Bank Limited" in this Programme Memorandum.

***The Issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures***

The Issuer has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, liquidity and operational risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Issuer's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than historical measures indicate. Other risk management methods depend upon evaluation of information regarding the markets in which the Issuer operates, its clients or other matters that are publicly available or otherwise accessible by the Issuer. This information may not be accurate in all cases, complete, up-to-date or properly evaluated. Any failure arising out of the Issuer's risk management techniques may have an adverse effect on its results of operations and financial condition.

***The Issuer may be unable to recruit, retain and motivate key personnel***

The Issuer's performance is dependent on the talents and efforts of key personnel, some of whom may have been employed by the Issuer for a substantial period of time and have helped develop the business. The Issuer's

continued ability to compete effectively and further develop its business also depends on its ability to attract new employees. In relation to the development and training of new staff, the Issuer is reliant on the continued development of the educational sector within South Africa, including access to facilities and educational programmes by its future employees. The Issuer has a policy directed towards the attraction and retention of existing and new employees and equipping them with appropriate skills. If the Issuer cannot attract, train, retain and motivate qualified personnel, it may be unable to compete effectively and the Issuer's ability to pursue its strategies may be limited, which in each case could have a material adverse effect on the Issuer's business, financial condition and results of operations.

#### ***The Issuer operates in a highly regulated environment which is subject to change***

The Issuer is subject to regulatory supervision by, among others: (i) the Registrar of Banks, who oversees activities falling within the ambit of the Banks Act and the Regulations Relating to Banks, (ii) the FSB, which is responsible for overseeing activities which fall within the ambit of the Financial Advisory and Intermediary Services Act 2002 (as amended) (the "**FAIS Act**"), and (iii) the NCR, who is responsible for overseeing activities which fall within the ambit of the National Credit Act 2005 (as amended) (the "**NCA**"). Consequently, the Issuer is subject to on-going regulation and the associated regulatory risks including the effects of changes in laws, regulations, policies and interpretations.

The Issuer is continually assessing the impacts of legal and regulatory developments which could have an effect on the Issuer, and participates in relevant consultation and collaboration processes undertaken by the various regulatory and other bodies. Implementation of regulatory developments could result in additional costs or limit or restrict the way that the Issuer conducts business, which could have a material adverse effect on the Issuer's business, financial condition and results of operations.

Areas where regulatory changes could have a material adverse effect on the Issuer include, but are not limited to, the following:

#### ***The Banks Act and the Regulations Relating to Banks***

The Issuer is required to maintain minimum levels of capital as set out in the Banks Act and the Regulations Relating to Banks. Any failure to maintain the required minimum capital ratios may result in sanctions against the Issuer, which may in turn impact the Issuer's ability to conduct its business or achieve growth. Moreover, the maintenance of adequate capital and liquidity is also necessary to afford the Issuer financial flexibility in dealing with any turbulence and uncertainty in the global and domestic economies.

The Basel III proposals, which were agreed by the Governors and Heads of the Basel Committee on Banking Supervision ("**BCBS**"), and endorsed by the G20 leaders at their November 2010 Seoul summit, have been adopted in South Africa, and were implemented from 1 January 2013, with various phases and transitional arrangements to be implemented through to 31 December 2018. For a more detailed discussion of the impact of Basel III, see "*The Banking Sector*" and "*Relevant Regulation in South Africa - Basel III*" and "*Capital and Liquidity Adequacy*". The SARB is engaged with the banking industry in respect of the domestic application of elements of Basel III where the regulators are entitled to exercise national discretion. The SARB is expected to provide regulations or guidance on certain aspects of Basel III which are yet to be implemented. As such, future regulatory reforms, including for example, increases in the regulatory minimum capital or liquidity requirements, and the full implementation of the minimum standards for funding liquidity in South Africa, pursuant to Basel III, could have a material adverse effect on the Issuer's business, financial condition and results of operations.

#### ***Limit on credit life premiums charged by insurance companies***

The NCR, the FSB and the department of the National Treasury which falls under the portfolio managed by the Minister of Finance of South Africa (the "**National Treasury**") recently reviewed the business practices of insurance companies and the pricing of consumer credit life insurance. In this review, the regulators focused on ensuring that credit life insurance continues to be provided at a reasonable cost and to that end, considered various options to prevent the current abuse by some insurers working in conjunction with credit providers. One of the options considered was the imposition of a limit on the credit life premium that may be charged by insurance companies. The latest amendments to the NCA included a provision empowering the Minister of Trade and Industry, in consultation with the Minister of Finance, to prescribe limits in respect of the cost of credit insurance that a consumer may be charged in connection with a credit agreement. (See "*The National Credit Act and unsecured lending*" below and "*The Banking Sector and Relevant Regulations in South Africa*"

– “National Credit Act, 2005”.)

While African Bank has engaged with the regulators regarding the negative impact such a policy may have on the benefits currently being provided to customers under credit life insurance policies, the outcome of any such regulatory changes cannot be predicted. If the maximum premium on credit life insurance is prescribed at a level which leads to insurers restricting their insurance benefits when an insured event occurs, this may lead to more of African Bank’s customers’ repayments on loans not being covered by insurance when an insured event occurs, which may lead to higher credit losses for African Bank. In addition, African Bank may also need to collect on the outstanding delinquent debt obligations from the customers directly, rather than recovering from insurance companies. In the extreme event that the regulatory prescribed limits of premiums are such that insurance companies cannot underwrite credit risks, African Bank will be exposed to significantly increased credit risk due to losses arising from events that are currently insured. Any such outcome may have a material adverse effect on African Bank’s business, financial condition and results of operations.

#### *Changes to the FSB Licence requirements*

The FSB have made certain proposals to amend (i) the categories of financial products under the FAIS legislation and related regulations, as well as, (ii) the FAIS qualification requirements for registered representatives who may sell certain categories of financial products. See “*Regulation- Financial Advisory and Intermediary Services Act, 2002*” for further detail. If these proposals are implemented, in order for African Bank to provide financial advisory services and financial intermediary services in respect of insurance products which fall within the new categories of financial products, they will need to apply to the FSB to have their current financial service provider (“FSP”) licences amended. In addition, employees of African Bank involved in the selling of insurance products may need extensive training to complete the prescribed qualification requirements in order to comply with such new regulatory requirements. Should African Bank not meet the relevant FSB licence requirements or should their branch personnel not meet the new FAIS representative qualification requirements, this may prevent African Bank from providing certain products and services, and as such, may have a material adverse impact on African Bank’s business, financial condition and results of operations.

#### *The National Credit Act and unsecured lending*

Credit lending in South Africa is highly regulated through the NCA. The NCA requires credit providers to perform a thorough assessment of the ability of prospective customers to repay any credit they may be granted. It also limits the interest rates and fees and other amounts that can be charged for credit transactions. There is an ongoing political debate in South Africa with regard to the maximum rate of interest that should be charged for unsecured lending transactions.

The NCA has recently undergone a review process, with amendments to the NCA having been approved by the parliamentary process by the end of March 2014 and are currently awaiting signature by the President of South Africa before being passed into law.

Amendments to the NCA which could have a material adverse effect on the Issuer’s business, financial condition and results of operations include, but are not limited to, provisions (i) requiring the Minister of Trade and Industry, on recommendation from the NCR, to introduce affordability assessment regulations; (ii) empowering the Minister of Trade and Industry, in consultation with the Minister of Finance, to prescribe limits in respect of the cost of credit insurance that a consumer may be charged in connection with a credit agreement; (iii) prohibiting the selling or collection of outstanding debts which have prescribed and (iv) empowering the Minister of Trade and Industry to prescribe at any time which consumer credit information held by credit bureaus should be reviewed, verified, corrected or removed, power enables the Minister of Trade and Industry to authorise the removal of certain (and potentially vital) adverse information from a credit bureau’s records.

During the review process of the NCA, the Department of Trade and Industry (the “DTI”) indicated that in its view it is prudent to ensure that fixed rates under credit agreements fall within a maximum prescribed rate under the NCA at all times, including post the granting of the loan, and requested public comment on this matter. While a resolution to this issue was not included in the latest amendment to the NCA, if the prescribed rate is subsequently reduced to a level lower than the contractually agreed rate of interest on any loan, the effect of such legislation would be to require the reduction in the previously agreed contractual rate of interest during the term of a loan from the implementation date of such legislation. Any reduction in the rate of interest on loans

granted by the Issuer could cause a loss in revenue for the Issuer and consequently have a material adverse impact on the Issuer's business, financial condition and results of operations.

(See "*The Banking Sector and Relevant Regulations in South Africa*" – "*National Credit Act, 2005*" for more information on regulatory developments relating to the NCA.)

***Political, social and economic risks in South Africa or regionally may have an adverse effect on the Issuer's operations***

The Issuer's operations are concentrated in South Africa with all of its revenues deriving from operations in South Africa. Operations in this market are subject to various risks which need to be assessed in comparison to jurisdictions elsewhere. These include political, social and economic risks specific to South Africa, such as general economic volatility, recession, inflationary pressure, exchange rate risks and exchange controls, which could affect an investment in the Notes. The existence of such factors may have an impact on South Africa and the results of the Issuer in ways that cannot be predicted.

***Any downgrade of the Issuer's credit ratings or the credit rating of South Africa could have an adverse effect on the Bank's liquidity sources and funding costs***

The Issuer's credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding. Rating agencies regularly evaluate the Issuer and their ratings of the Issuer's long-term debt are based on a number of factors, including capital adequacy levels, quality of earnings, credit exposure, the risk management framework and funding diversification. These parameters and their possible impact on the Issuer's credit ratings are monitored closely and incorporated into the Issuer's liquidity risk management and contingency planning considerations. A downgrade or potential downgrade of the South African sovereign rating or a change in rating agency methodologies relating to systemic support provided by the South African sovereign could also negatively affect the perception by rating agencies of the Issuer's rating. There can also be no assurance that the rating agencies will maintain the Issuer's current ratings or outlooks or those of South Africa.

Moreover, the sovereign rating of South Africa has a number of effects on the South African banking sector as a whole. As at 30 September 2013, the foreign currency credit ratings and long-term outlook for South Africa were BBB (Stable outlook), Baa1 (Negative outlook), BBB (Negative outlook) from Fitch Ratings Limited, Moody's and Standard & Poor's Credit Market Services Europe Limited (Frankfurt Branch), respectively. A downgrade in these ratings would likely increase the cost of financing of the South African public debt, which could result in increased taxation, lower Government spending and consequently have an adverse effect on South African economic conditions. A downgrade in these ratings could also raise the cost of funding and reduce the access to capital and funding markets for the Issuer and other financial institutions in South Africa.

Any such downgrade of the Issuer's credit ratings or the credit ratings of South Africa or any change in outlook with respect to either may have an effect on the Issuer's cost of funding, which may in turn have an adverse impact on its ability to fulfil its obligations under the Notes.

***Increased competition may have an adverse effect***

The Issuer is subject to competition from other banks and non-banking financial institutions (including retailers offering their customers credit to assist their purchases) operating in South Africa, including competitors that may have greater financial and other resources. Many of these banks and other financial institutions operating in the Issuer's markets compete for substantially the same customers as the Issuer. Competition may increase the Issuer's principal market and may have an adverse effect on its financial condition and results of operations.

***Risks associated with the proposed disposal of Ellerines***

ABIL intends to dispose of its standalone furniture and appliance business, Ellerines, and is actively reviewing various options in this regard. There is no assurance that ABIL will be in a position to dispose of Ellerines on favourable or acceptable economic terms, or at all. Furthermore, if and when a transaction is entered into for the purpose of disposing of Ellerines, such transaction may be subject to conditions precedent, including Government and regulatory approvals and completion mechanics that in certain cases may entail consent from third parties. There are no assurances that such conditions precedent will be satisfied, or consents and approvals obtained, in a timely manner, or at all. ABIL may also be subject to ongoing liabilities in the period between announcement of the transaction and completion, tax liabilities that may arise, substantive indemnity obligations in favour of the buyer, the risk of liability for breach of warranty and other transaction execution risks. In

particular, there may be a potential further impairment of goodwill relating to the furniture and appliance business in the event that the selling price is less than the current carrying value of the business.

ABIL's intention to dispose of Ellerines may, depending on the structure of the sale transaction, have a negative impact on the growth of African Bank's loan book should such disposal result in African Bank no longer being permitted to lend to customers through the network of the various brands within Ellerines in South Africa. Any of these factors could negatively affect African Bank's business, financial condition and results of operations.

***The Issuer is exposed to the risk of fraud, bribery and corruption***

The Issuer's internal control systems are constantly tested and updated to ensure that they are effective in the prevention of fraud, bribery and corruption. However, the Issuer remains exposed to the risk of financial loss due to fraud, bribery and corruption by various parties including, without limitation, crime syndicates. While the Issuer maintains training programmes, codes of conduct and other safeguards to prevent the occurrence of fraud, bribery and corruption, including by employees, directly or indirectly, whether under duress, undue influence or acting in collusion with third parties (e.g. organised crime), it may not be possible for the Issuer to detect or prevent every such instance of this type of activity on every occasion. The Issuer may therefore be subject to civil and criminal penalties where its employees engage in any impermissible or illegal activity, which may result in material penalties, or have a materially adverse impact on the Issuer's reputation which in turn could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer's financial statements are based in part on assumptions and estimates which, if wrong, could cause losses in the future***

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported may be based upon amounts which differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors. The accounting policies deemed critical to the Issuer's results and financial position are based upon materiality and significant judgments and estimates and include impairment of financial assets, valuation of financial instruments, pensions, insurance and taxation. If the judgments, estimates and assumptions used by the Issuer in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer may be adversely affected by a proposed IASB accounting pronouncement on the impairment of financial instruments***

On 7 March 2013, the International Accounting Standards Board ("IASB") issued an exposure draft, the Exposure Draft ED/2013/3 Financial Instruments: Expected Credit Losses (the "**Exposure Draft**"), which introduces proposed guidance on an expected loss impairment model that will replace the incurred loss model currently applied. The IASB has not indicated when it intends for this Exposure Draft to be adopted as a standard. The Issuer, like most other entities that hold financial assets subject to credit losses, will be affected by the IASB's proposed model as contemplated by the Exposure Draft. Extensive disclosures are proposed, including reconciliations of opening to closing amounts and disclosure of assumptions and inputs. If the Exposure Draft is adopted, it will result in expected credit losses being recognised on the Issuer's loans when they are originated or purchased by the Issuer. There remains some uncertainty about the detailed arrangement for the implementation of the Exposure Draft and the Issuer has not quantified the impact of the Exposure Draft as it requires significant cost and effort, which can only be applied once the final standard is issued. The proposed adoption of the Exposure Draft may reduce the reported value of the Issuer's assets, and materially increase the Issuer's write-downs and allowances for impairment losses, which may in turn have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer's operations may be disrupted by increased trade union activity in South Africa***

South Africa has recently experienced an increased level of trade union activity. A number of trade unions in various industries have undertaken industrial action, including strikes, in South Africa over the course of 2012 and 2013, causing work stoppages and production losses. In addition, recent trade union activity in South Africa has resulted in above-inflation negotiated salary increases in certain sectors. The increase in trade union activity, and increased political pressure on labour-related matters, including public debates regarding the relaxation of labour laws, may increase the likelihood or frequency of industrial action in South Africa or impact labour negotiations. The construction and mining sectors are among the sectors considered to be potentially at risk of

further industrial action. Similarly, if as a result of increased illegal labour action, customers of the Issuer find themselves out of employment, such customers' ability to repay their loans to the Issuer would be affected which may result in higher bad debts being suffered. If the Issuer incurs increased labour costs or losses due to increased industrial action, these costs and losses could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer relies on the performance, reliability and integrity of key information technology systems***

The Issuer's lending platform is enabled and supported by an IT system that was designed for the Issuer's business model, and is a core element of the Issuer's credit scoring process. IT platforms, whether the Issuer's or those of third parties on which the Issuer relies, however, are vulnerable to a number of problems, such as computer virus infections, malicious hacking, physical damage to vital IT centres and software or hardware malfunctions. Any incidents of malicious hacking of confidential client data could result in additional costs and material losses to the Issuer and damage to its reputation. Any failure in the Issuer's IT platform, or a general failure of electronic financial systems in South Africa, or greater-than-expected IT costs could significantly affect the Issuer's operations and the quality of client service and could have a material adverse effect on the Issuer's business, financial condition and results of operations.

In addition, if the Issuer is not successful in implementing new systems, or adapting its current IT platform over time, the Issuer may not be able to meet the expectations or changing demands of its clients, and it may incur substantial additional expenses or be unable to compete successfully in the market, which could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***Developments and the perception of risk in other emerging market countries may adversely affect the Issuer's access to financing and the market price of the Issuer's securities***

The market value of securities of South African issuers is affected by economic and market conditions in other countries, including other emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in South Africa, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of South African issuers. Crises in other emerging market countries may diminish investor interest in securities of South African issuers, including the securities of the Issuer. This could adversely affect the market price of the Issuer's securities, restrict the Issuer's access to the capital markets and compromise the Issuer's ability to finance its operations in the future on favourable terms, or at all, each of which would have a material adverse effect on the Issuer's business, financial condition and results of operations.

***HIV/AIDS poses risks to African Bank in terms of lost productivity and increased costs***

Statistics South Africa has estimated that during 2013 approximately 5.3 million or 10 per cent. of the South African population was living with HIV. The socio-economic impact of this pandemic on South Africa is and will continue to be significant. The incidence of HIV/AIDS in South Africa will likely lead to increasing absenteeism, increasing deaths from AIDS-related illnesses, increasing medical and other costs and decreasing productivity. It may also contribute to other human resources challenges, such as difficulty in recruiting and retaining employees. The potential impact of HIV/AIDS on the Issuer's operations and financial condition will be determined by a variety of factors, including the cost and effectiveness of the voluntary testing and treatment programme deployed by the Issuer for the benefit of its employees, the incidence of HIV infection amongst the Issuer's employees, the progressive impact of HIV/AIDS on infected employees' health and productivity and the medical and other costs associated with infection. In 2011, the Issuer undertook a voluntary testing programme in which 86 per cent. of its staff participated. Of the staff tested, 13 per cent. tested positive for HIV/AIDS. Notwithstanding the fact that the Issuer has rolled out an HIV treatment programme, and the incidence rate of new infections are decreasing year on year, it is not possible to determine with certainty the Issuer's costs of managing HIV/AIDS or the impact that HIV/AIDS may have on the Issuer in general. The incidence of HIV/AIDS amongst the Issuer's workforce is beyond its control and a significant increase in such incidences could adversely impact its business, results of operations, financial condition and prospects.

### ***Terrorist acts and other acts of war could have a negative impact on the business***

Terrorist acts, and other acts of war or hostility and responses to those acts, may create economic and political uncertainties, which could have a negative impact on the business and results of operations of the Issuer in ways that cannot be predicted. If the Issuer is unable or fails to effectively manage these risks, such acts or events could have a material adverse effect on the Issuer's business, financial condition and results of operations.

## **RISKS RELATING TO THE NOTES AND MARKETS GENERALLY**

### ***The Notes may not be a suitable investment for all investors***

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Programme Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such an investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

### ***Investments in emerging markets are subject to greater risk than investments in more developed markets***

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

### ***There is no active trading market for the Notes***

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. There is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

### ***The Notes may be subject to exchange rate risks and exchange controls***

African Bank will pay the principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the

Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

***The Notes may be redeemed prior to maturity***

Unless in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions.

In addition, if in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

***Because uncertificated Notes are held by or on behalf of the CSD, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

Notes issued under the Programme which are listed on the Interest Rate Market or the Main Board of the JSE or such other or additional Financial Exchange and/or immobilised in the CSD may, subject to applicable laws and the Applicable Procedures, be issued in uncertificated form. Unlisted Notes may also be held by the CSD in uncertificated form. Notes held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD. Except in the limited circumstances described in the Terms and Conditions, investors will not be entitled to receive Individual Certificates. The CSD will maintain records of the Beneficial Interests in Notes issued in uncertificated form, which are held in the CSD (whether such Notes are listed or unlisted). Investors will be able to trade their Beneficial Interests only through the CSD and in accordance with the Applicable Procedures.

Payments of principal and/or interest in respect of uncertificated Notes will be made to the CSD and/or the Participants and the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the CSD and/or the Participants for distribution to their account holders. A holder of a Beneficial Interest in uncertificated Notes, whether listed or unlisted, must rely on the procedures of the CSD to receive payments under the relevant Notes. Each investor shown in the records of the CSD and/or the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for his share of each payment so made by the Issuer to the registered holder of such uncertificated Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, such Beneficial Interests.

Holders of Beneficial Interests in uncertificated Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the CSD to appoint appropriate proxies.

***Credit Rating***

Tranches of Notes issued under the Programme, the Issuer and/or the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Any reduction in the Issuer's credit ratings may increase its costs of borrowing and limit access to capital markets. There is no guarantee that the Issuer will not be subject to negative changes in its credit rating. Such changes in the Issuer's credit ratings could adversely affect its liquidity, funding and competitive position, which may, in turn, reduce the Issuer's profitability and financial position.

### ***Withholding Tax***

A new withholding tax on interest will come into force in South Africa with effect from 1 January 2015. A general guide to the relevant South African tax laws is set out under “*South African Taxation*” of this Programme Memorandum.

### ***U.S. Foreign Account Tax Compliance Withholding***

Pursuant to the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010 (“**FATCA**”), non-U.S. financial institutions that enter into agreements with the Internal Revenue Service (any such non-U.S. financial institution, a “**Participating FFI**”) or become subject to provisions of local law intended to implement an intergovernmental agreement entered into pursuant to FATCA (“**IGA legislation**”) may be required to identify “financial accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other non-U.S. financial institutions that are not Participating FFIs (or not otherwise exempt from the FATCA reporting regime). In order (i) to obtain an exemption from FATCA withholding on payments it receives and/or (ii) to comply with any applicable laws in its jurisdiction, a non-U.S. financial institution that is a Participating FFI or that is subject to IGA legislation may be required to (a) report certain information with respect to its U.S. account holders to the United States government or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the non-U.S. financial institution with information, consents and forms or other documentation that may be necessary for such non-U.S. financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

As a result, under FATCA, the Issuer (and other non-U.S. financial institutions through which payments on the Notes are made) may be required to withhold 30 per cent. on all or a portion of payments made on or after the later of (i) 1 January 2017 or (ii) the date that is six months after the date on which final U.S. Treasury Department regulations defining the term “foreign passthru payment” are filed in the Federal Register in respect of (a) any Notes treated as debt for U.S. federal income tax purposes that are issued or materially modified on or after 1 July 2014 (or such other date as may be subsequently specified in any U.S. Treasury regulations, official interpretations or administrative guidance issued thereunder) and (b) any Notes which are treated as equity for U.S. federal income tax purposes, whenever issued. Such withholding generally will apply to payments made in respect of the Notes to Noteholders that are not compliant with FATCA or do not provide the necessary information, consents or documentation.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not entirely clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of the application of FATCA (including, without limitation, as a result of a failure by a Noteholder or beneficial owner to comply with these rules, as a result of the Noteholder or beneficial owner being a non-Participating FFI, or as a result of the presence in the payment chain of a non-Participating FFI), none of the Issuer, any Paying Agent or any other person would, pursuant to the Conditions, be required to pay additional amounts to investors as a result of the deduction or withholding of such tax. As a result, Noteholders may receive less interest or principal than expected.

**FATCA is particularly complex and its application to the Issuer, the Notes and the Noteholders is uncertain at this time. Each Noteholder should consult its tax adviser to obtain a more detailed explanation of FATCA and the possible implications of FATCA on payments they receive in connection with the Notes. The Issuer accepts no responsibility with regard to how FATCA might affect any Noteholder and is not providing any advice with respect to FATCA.**

### **RISKS RELATED TO THE STRUCTURE OF THE PARTICULAR ISSUE OF NOTES**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

#### ***Notes subject to optional redemption by the Issuer***

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those

times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Index-Linked Notes and Dual Currency Notes are subject to additional market risks***

The Issuer may issue Notes the terms of which provide for interest or principal payable in respect of such Notes to be determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”) or with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- no interest may be payable on such Notes;
- payments of principal or interest on such Notes may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the Nominal Amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than 1 (one) or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

***Partly-paid Notes***

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

***Variable Rate Notes with a multiplier or other leverage factor are subject to increased volatility***

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

***Fixed/Floating Rate Notes are subject to additional risks***

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

***Notes issued at a substantial discount or premium***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***The Notes may be redeemed prior to their final maturity date for tax or other reasons***

In the event that the Issuer would be obliged to increase the amounts payable or would not be entitled to claim a tax deduction in respect of any Tranche due to changes affecting taxation in South Africa or any authority thereof, it may redeem all but not some of the outstanding Notes of such Tranche in accordance with the Terms and Conditions.

Further, if the proceeds of any Subordinated Notes on their issue would constitute Tier 2 Capital under the Capital Regulations and, as a result of any subsequent changes in the terms of or pursuant to the Capital Regulations such proceeds no longer constitute Tier 2 Capital (in whole or in part), then the Issuer may redeem all but not some of the affected Notes of the relevant Tranche in accordance with the Terms and Conditions. Any redemption of Tier 2 Notes prior to the Maturity Date requires the prior written approval of the Registrar of Banks.

#### ***Modification and waivers and substitution***

The Terms and Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

In addition, the terms and conditions relating to Tier 2 Notes provide that if a Regulatory Event (as defined in the Terms and Conditions) has occurred and is continuing, the Issuer may, without any requirement for the consent or approval of the Noteholders of the Tier 2 Notes, elect to substitute all of the Tier 2 Notes for, or vary the terms of the Tier 2 Notes so that they will, or will continue to qualify as Tier 2 Capital under the then current Capital Regulations.

#### ***Change of law***

The Notes are governed by, and will be construed in accordance with, South African law in effect the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to South African law or administrative practice after the date of issue of the relevant Notes. Changes in South African law may include, but, are not limited to, the introduction of statutory resolutions and loss absorption tools which may affect the rights of the holders of the Tier 2 Notes. Such tools may include the ability to write off sums otherwise payable on such Tier 2 Notes at a time when the Issuer is no longer considered viable by the Registrar of Banks or pursuant to the Capital Regulations. (See “*Risks relating to the Subordinated Notes (including Tier 2 Notes)*”).

### **RISKS RELATING TO THE SUBORDINATED NOTES (INCLUDING TIER 2 NOTES)**

#### ***Notes may be subordinated to most of the Issuer's liabilities***

The payment obligations of the Issuer under the Subordinated Notes (including any Tier 2 Notes) will rank behind depositors and senior creditors (including holders of unsubordinated Notes). In the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up, the claims of the persons entitled to be paid amounts due in respect of the Subordinated Notes will be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness (as defined in the Terms and Conditions). Accordingly, in any such event no amount shall be eligible for set-off or shall be payable to any or all of the persons entitled to be paid amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, insolvency or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

#### ***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 any Subordinated Notes. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Subordinated Notes on either a winding-up, liquidation or administration of the Issuer.

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

If the Issuer is wound-up or put into liquidation or curatorship, voluntarily or involuntarily, Noteholders of Subordinated Notes will not be entitled to any payments in respect of the Subordinated Notes until the claims of Senior Noteholders, depositors and/or 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, Noteholders of Subordinated Notes will not receive any payment on Subordinated Notes. There is no limitation on the ability to issue debt securities in the future that would rank equal or senior in winding-up, liquidation or curatorship to the Subordinated Notes.

In addition, the rights of Noteholders of Subordinated Notes are limited in certain respects. In particular, if the Issuer defaults on a payment of principal or interest due on any Subordinated Notes for a period of ten days or

more, such Noteholders of Subordinated Notes may only institute proceedings for the winding-up of the Issuer (and/or prove in any winding-up of the Issuer (other than pursuant to a Solvent Reconstruction), but take no other action in respect of that default. Only if an order is made or an effective resolution is passed for the winding-up of the Issuer (other than pursuant to a Solvent Reconstruction) shall such Noteholders of Subordinated Notes be able to declare (upon written notice) such Subordinated Notes immediately due and payable.

***Proceeds of Subordinated Notes may constitute Tier 2 Capital***

The proceeds of a Note may constitute Tier 2 Capital for the Issuer if it complies with the Capital Regulations and such conditions (in addition to the conditions specified in the Capital **Regulations**) as may be prescribed by the Registrar of Banks for the proceeds of the issue of such Notes to qualify as Tier 2 Capital pursuant to the approval granted by the Registrar of Banks (the “**Additional Conditions**”) (as applicable).

Under the laws of South Africa, the direct or indirect acquisition of a Note by a bank or controlling company (all as defined in the Banks Act) or by a non-bank subsidiary of a bank or controlling company, will result in an impairment to the capital of the bank or controlling company in question, in an amount determined in accordance with and subject to the “Regulations Relating to Banks” promulgated under section 90 of the Banks Act (the “Regulations Relating to Banks”).

Further, when a Tier 2 Note is issued, it may be redeemed, or purchased and cancelled before maturity only at the option of the Issuer and only with the prior written approval of the Registrar of Banks under the Regulations Relating to Banks, even when an Event of Default has occurred. In addition, in compliance with the Regulations Relating to Banks, the terms and conditions of such Notes will not entitle the Noteholders to accelerate the repayment of future scheduled repayments such as interest coupon or principal, except in the case of bankruptcy or liquidation. The payment obligations of the Issuer in respect of Tier 2 Notes also rank in accordance with the provisions of the Capital Regulations, which may impose payment limitations in addition to those applicable to regular Subordinated Notes.

The Tier 2 Notes may be subsequently excluded as Tier 2 Capital or be adversely affected as a result of a Regulatory Event (See “*Statutory Loss Absorption at the Point of Non-viability of the Issuer*” and “*Substitution and Variation of the Tier 2 Notes*” below for further detail).

***Statutory Loss Absorption at the Point of Non-viability of the Issuer***

Basel III requires the implementation of certain non-viability requirements as set out in the press release dated 13 January 2011 of the Basel Committee entitled “Minimum requirements to ensure loss absorbency at the point of non-viability” (the “**Basel III Non-Viability Requirements**”). The Basel III Non-Viability Requirements form part of the broader guidance issued by the Basel Committee on 16 December 2010 and 13 January 2011 in relation to Basel III.

Under the Basel III Non-Viability Requirements, the terms and conditions of all non-common tier 1 and tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a Trigger Event (as defined below) unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such tier 1 and tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss (a “**Statutory Loss Absorption Regime**”);
- (b) a peer group review confirms that the jurisdiction conforms with paragraph (a) above; and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under paragraph (a) above.

Under the Basel III Non-Viability Requirements the trigger event will be the earlier of: (1) a decision that a write-off, without which the issuing bank would become non-viable, is necessary, as determined by the relevant authority; and (2) 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. The Basel III Non-Viability Requirements have been implemented in Regulation 38 of the Regulations Relating to Banks. Regulation 38 stipulates that, as a minimum, the trigger event will be the earlier of (1) and (2) above. On 18 October 2013, the SARB released SARB Guidance Note 7 of 2013 (“**Guidance Note 7**”) that details matters relating to loss absorbency requirements and the relevant trigger events for capital instruments and which confirmed that the relevant “trigger event” for Tier 2 capital instruments would be at the discretion of the Registrar of Banks and would be the earlier of (1) and (2) above (the “**Trigger Event**”).

Currently there is no Statutory Loss Absorption Regime in South Africa. Until such time as such legislation exists, in order to issue Tier 2 Notes, the conditions of such Tier 2 Notes must include a provision that requires such Tier 2 Notes, at the option of the Registrar of Banks, to be written off or converted into the most subordinated form of equity upon the occurrence of the relevant Trigger Event.

Whilst a Statutory Loss Absorption Regime may be introduced, no official statement has yet been made as to whether when and in what form such Statutory Loss Absorption Regime will be implemented in South Africa.

However, if and to the extent a Statutory Loss Absorption Regime is implemented in South Africa so as to apply to Tier 2 Notes already in issue, such Tier 2 Notes will be subject to the provisions of South African law including any relevant requirements of the Statutory Loss Absorption Regime, as implemented in South Africa.

The Tier 2 Notes may, therefore, be subject to write downs or conversion into common equity of African Bank or its controlling company upon the occurrence of a Trigger Event, which may result in the Noteholders of the Tier 2 Notes losing some or all of their investment. It is important to note that in terms of Guidance Note 7:

- (a) Tier 1 instruments are likely to be converted or written down prior to the conversion or write-off of any Tier 2 instruments; and
- (b) in the event of a write-off of Tier 2 instruments, such write-off shall be permanent, with no possibility of write-up once the Issuer becomes viable again.

Future changes in regulation are beyond the control of the Issuer and it is not possible to predict precisely whether any future regulatory reforms in relation to the Statutory Loss Absorption Regime or the implementation in South Africa of the Basel III Non-Viability Requirements will have a material effect on the Issuer's financial condition, business or results of operations. Such regulatory changes could also adversely affect the price or value of a Noteholder's investment in any Tier 2 Notes and/or the ability of the Issuer to satisfy its obligations under the Tier 2 Notes.

***Tier 2 Notes for the Issuer which will increase the risk of the Issuer redeeming Tier 2 Notes prior to maturity***

The Taxation Laws Amendment Act, 2013 (the "TLAA") revises anti-hybrid debt re-characterisation rules in order to reduce the scope for companies to create equity instruments that are disguised as debt instruments and thereby artificially generate interest deductions.

Based on the TLAA, one of the factors that may determine whether an instrument is classified as a hybrid debt instrument is whether the obligation to pay an amount in respect of that instrument is conditional upon the market value of the assets of that company not being less than the market value of the liabilities of that company. If an instrument is re-characterised in this manner as hybrid debt, the instrument may be treated as an equity instrument for income tax purposes. The consequences of such re-characterisation may include that (a) interest payable on the instrument is treated as the payment of a dividend in specie by the issuer and the receipt of a dividend by the holder of the instrument, and (b) the issuer of the instrument is denied a tax deduction for the interest payable on the instrument. If the interest on an instrument is re-classified as a dividend it may also be subject to the dividends tax provisions contained in the Income Tax Act. These hybrid debt instrument rules came into force on 1 April 2014 and apply in respect of amounts incurred after that date.

The TLAA does, however, indicate that Tier 1 Capital and Tier 2 Capital will be exempted from these anti-hybrid debt re-characterisation rules notwithstanding that the relevant instruments would otherwise fall within the scope of the proposed re-characterisation rules.

***Substitution and Variation of the Tier 2 Notes***

Upon the occurrence and continuation of a Regulatory Event, the Issuer may, subject as provided in the Terms and Conditions, without any requirement for the consent or approval of the Noteholders of the Tier 2 Notes, elect to substitute all (but not only some) of the relevant Tier 2 Notes for, or vary the terms of the relevant Tier 2 Notes so that they will, or will continue to qualify as Tier 2 Capital under the Capital Regulations and the Additional Conditions (if any).

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## THE BANKING SECTOR AND RELEVANT REGULATIONS IN SOUTH AFRICA

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*Words used in this section headed “The Banking Sector and Relevant Regulations in South Africa” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

### INTRODUCTION

African Bank is subject to government regulation in South Africa. Regulatory agencies have broad jurisdiction over many aspects of the bank’s business, which may range from capital adequacy, funding and liquidity risk management and credit risk management to practices relating to marketing and selling, advertising, licensing agents, policy forms, terms of business and permitted investments.

The South African banking system is well developed and effectively regulated, comprising a central bank (the SARB), several large, financially strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have also established operations in South Africa over the past decade. The Government is part of the G20 group of nations and is a subscriber to International Monetary Fund and World Bank regulations, policies and review processes and is a member of the International Liaison Group of the BCBS.

The National Payment System Act, 1998, as amended was introduced to bring the South African financial settlement system in line with international practice and systematic risk management procedures. The Payment Association of South Africa, under the supervision of the SARB, has facilitated the introduction of payment clearing house agreements. It has also introduced agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in inter-bank settlement. These developments have brought South Africa in line with international inter-bank settlement practice. Electronic banking facilities are extensive, with a nationwide network of ATMs and internet banking being available.

Financial regulation legislation in South Africa is increasingly following international best practice through the accords of international bodies such as the Bank of International Settlements, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

### REGULATORY AGENCIES

#### South African Reserve Bank

The SARB, South Africa’s central bank, is responsible for the regulation and supervision of the banking sector in South Africa, with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole. The SARB derives its powers from the Constitution of South Africa, 1996 and the South African Reserve Bank Act, 1989 (“**SARB Act**”). In terms of the SARB Act, the SARB must, among other things, perform such functions of bankers and financial agents as central banks customarily perform. The Banking Supervision Department of the SARB performs its regulatory and supervisory functions through the office of the Registrar of Banks. The Registrar of Banks has extensive regulatory and supervisory powers.

South African banks are required to comply with the Banks Act and, among other regulations, the Regulations Relating to Banks. The Banks Act and Regulations Relating to Banks are amended on an ongoing basis to incorporate the requirements issued by the BCBS. ABIL is a registered bank controlling company under the Banks Act. African Bank is a registered bank under the Banks Act.

The Banks Act, the Regulations Relating to Banks, other regulations issued under the Banks Act and the circulars issued by the Registrar of Banks set out the framework which governs the formal relationship between South African banks and the SARB. This three-tiered framework, namely, the Banks Act, the Regulations Relating to Banks and circulars to the Banks Act, has been reviewed and the Steering Committee of the Accord Implementation Forum has proposed that the third tier be expanded to include guidance notes to detail agreed market practice. These guidance notes do not empower the regulator to create regulations but provide for more flexibility in clarifying market practice within the confines of the Banks Act and regulations as agreed between market participants (*Accord Implementation Forum Steering Committee Position Paper 63*). Effecting changes to the Banks Act requires Parliamentary approval and changes to the Regulations Relating to Banks require the approval of the Minister of Finance.

Each bank is obliged to furnish certain prescribed returns to the Registrar of Banks in order to enable him to monitor compliance with the formal, prudential and other requirements imposed on banks by the Banks Act. The Regulations Relating to Banks may be (and are) amended from time to time in order to provide for

amendments and additions to the prescribed returns, and the frequency of submission thereof. Reporting is generally done on a monthly basis on the prescribed forms. Some of these forms, such as the BA900 returns, are publicly disclosed by the SARB. The Registrar of Banks acts with relative autonomy in executing his duties, but has to report annually to the Minister of Finance, who in turn has to table this report in Parliament. The extent of supervision entails the establishment of certain prudential requirements (for example the capital and liquidity requirements prescribed by the BCBS), and the continuous monitoring of a bank's adherence thereto through its Supervision, Review and Evaluation Process. The SARB also carries out various supervision activities related to compliance with the money laundering legislation being the Financial Intelligence Centre Act, 2001 ("FICA"). The performance of individual banks is monitored on an ongoing basis against developments in the banking sector as a whole. If deemed necessary, inspectors may be appointed to inspect the affairs of any bank, or any institution or person not registered as a bank if there is reason to suspect that such an institution or person is carrying on the business of banking without a banking licence or appropriate exemption.

African Bank and representatives of the Registrar of Banks meet at regular bilateral meetings, annual trilateral meetings (with the group's auditors) and annual prudential meetings. African Bank also engages in regular "group discussions" with the Registrar of Banks to assess its performance against its peer group and it is subject to on-site reviews.

African Bank's relationship with the Registrar of Banks is managed by a dedicated compliance department (which reports to the ABIL Group's risk officer) to ensure open, constructive and transparent lines of communication. Informal meetings, updates, trends and strategies are reported to the Registrar of Banks on a regular basis. African Bank also employs a senior, independent compliance officer to ensure adherence to the applicable legislation.

African Bank views its relationship with the Registrar of Banks as being of the utmost importance and it is committed to fostering sound banking principles for the industry as a whole. In this regard, African Bank is a member of the Banking Association of South Africa whose role is to establish and maintain the best possible platform on which banking groups can conduct competitive, profitable and responsible banking.

### **Basel III**

The Basel III proposals, which were agreed to by the Governors and Heads of the BCBS, and endorsed by the G20 leaders at their November 2010 Seoul summit, were adopted in the South African regulatory framework, and were implemented from 1 January 2013, with various phases and transitional arrangements through 31 December 2018. While the Regulations Relating to Banks were amended, with effect from 1 January 2013, to provide for the implementation of Basel III, the Banks Act is in the process of being amended.

Basel III:

- places enhanced emphasis on the consistency and quality of capital and on curtailing, among other things, liquidity risk, through the imposition on banks of a short-term liquidity coverage ratio ("LCR") and longer dated net stable funding ratio ("NSFR");
- identifies, through the LCR, the amount of unencumbered, high quality liquid assets a bank is required to hold in order to offset the cumulative net cash outflows it would encounter under an acute short-term (30 day) stress scenario;
- measures, through the NSFR, the amount of longer-term, stable funding sources required by a bank given the liquidity profile of its assets and the contingent liquidity risk arising from off-balance-sheet exposures;
- introduces higher quality capital requirements both through increasing the amount of common equity and through the quality of non-common equity ratios, with the introduction of a requirement for loss absorption;
- introduces two new buffers: a capital conservation buffer of 2.5 per cent. (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 per cent. and 2.5 per cent., depending on whether the rate of credit extension exceeds the growth of the real economy. These buffers are due to be phased in, in South Africa, between January 2016 and the end of 2018, only to be fully effective from 1 January 2019;
- introduces new features for non-common equity instruments. These instruments must be "loss absorbent", that is, convertible to ordinary shares or written-off upon the occurrence of a "trigger event". A relevant trigger event occurs when the relevant regulator determines that a bank would become non-viable without such conversion or write-off without a public sector injection of capital into the bank; and

- requires that non-common equity capital instruments issued before 1 January 2013, which do not meet the Basel III loss absorbent criteria, be “grandfathered” or phased out over a 10-year period from 1 January 2013.

### Capital and Liquidity Adequacy

The capital base of a bank provides the foundation for lending and supports its funding activities. All South African banks are subject to regulatory capital requirements. Capital adequacy is measured in terms of the Banks Act and the Regulations Relating to Banks, which require a bank to maintain a minimum level of capital based on risk-adjusted assets and off-balance-sheet exposures. The measurement of capital adequacy is governed by stringent adherence to the Basel rules.

African Bank’s capital and liquidity is critical to its ability to operate its businesses, to grow organically and to take advantage of strategic opportunities. The maintenance of adequate capital and liquidity is also necessary for African Bank’s financial flexibility in the face of any turbulence and uncertainty in both the local and global economy.

As described above under “*Basel III*”, Basel III prescribes two minimum liquidity standards for funding liquidity, namely a LCR, which is expected to become effective on 1 January 2015 and aims to ensure that banks maintain an adequate level of high-quality liquid assets to meet liquidity needs for a 30 calendar day period under a severe stress scenario, and a NSFR, which is expected to become effective on 1 January 2018 and aims to promote medium and long-term funding of banks’ assets and activities. Both the LCR and the NSFR will be subject to an observation period and include a review clause to address any unintended consequences. South Africa, as a G20 and a BCBS member country, is implementing the Basel III framework on a phased basis which commenced on 1 January 2013 and is continuing up to 2018, in line with the timelines prescribed by the BCBS.

Given the structural funding profile of South Africa’s financial sector and the limited availability of high-quality liquid assets (as defined in Basel III) in South Africa, the South African banking sector (including African Bank) will, based on their current funding profiles, experience difficulty in complying with Basel III’s LCR and NSFR requirements. These issues have been recognised by the South African regulatory authorities, the banking industry and the National Treasury of South Africa. In response, and under the direction of the South African Minister of Finance, a financial cross sector task team was established and mandated to consider relevant issues relating to, among others, the structural funding profile of South Africa’s financial sector and the disparate regulatory treatment of banks and money market funds. Furthermore, the SARB has approved the provision of a committed liquidity facility available to banks to assist banks to meet the LCR.

The SARB is engaging with the banking industry in respect of the domestic application of elements of Basel III where regulators are entitled to exercise national discretion. The consultation process is on-going and will continue during the monitoring period. In view of the South African banking regulator endorsing the initiatives, strategies and new or amended requirements and standards issued by the BCBS in addressing the fundamental weaknesses revealed by the global financial crisis, the Bank is not able to predict precisely whether future regulatory reforms and the implementation in South Africa of Basel III minimum standards for funding liquidity will have a material impact on African Bank’s financial condition, business or results of operations.

From a capital perspective, Basel III provides for three “tiers” of regulatory capital: (i) “common equity tier 1 capital”, (ii) “additional tier 1 capital” and (iii) “tier 2 capital”.

The ordinary shares in African Bank constitute common equity tier 1 capital. Additional tier 1 capital comprises *inter alia* non-redeemable, non-cumulative preference shares and tier 2 capital instruments comprise, *inter alia*, subordinated debt. Currently ABIL has not issued any tier 2 capital instruments but has issued preference shares which constitute additional tier 1 capital for ABIL. African Bank has issued debt instruments which constitute tier 2 regulatory capital for African Bank. As all of these additional tier 1 and tier 2 instruments were issued prior to 1 January 2013, they are subject to the grandfathering of Basel III referred to below.

The Regulations Relating to Banks and the Basel III requirements require the implementation of certain loss absorption criteria under certain points of non-viability circumstances in respect of additional tier 1 instruments and tier 2 instruments issued on or after 1 January 2013 (the “**Basel III Non-Viability Requirements**”). In principle, under these Basel III Non-Viability Requirements, the terms and conditions of additional tier 1 and tier 2 capital instruments must have a provision that requires such instrument, at the option of the Registrar of Banks (who has been appointed as the relevant authority for the purpose of Basel III in South Africa), either to be written off or converted into “common equity” (that is, ordinary shares) upon the occurrence of a Trigger Event (as defined below) unless, *inter alia*, South Africa, being the governing jurisdiction of ABIL and African Bank, has in place laws that require such tier 1 and tier 2 instruments to be written off upon such event, or

otherwise require such instruments to fully absorb losses before tax payers or ordinary depositors are exposed to loss (a “**Statutory Loss Absorption Regime**”).

Under the Basel III Non-Viability Requirements the trigger event will be the earlier of: (1) a decision that a write-off, without which the issuing bank would become non-viable, is necessary, as determined by the relevant authority; and (2) 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. The Basel III Non-Viability Requirements have been included in the Regulations Relating to Banks (the “**Trigger Event**”).

Currently there is no Statutory Loss Absorption Regime in South Africa. Accordingly, South African based banking groups issuing capital instruments currently are dependent upon the approach taken and guidance issued by the Registrar of Banks in this regard. In Guidance Note (G7/2013) issued from the Office of the Registrar of Banks on 18 October 2013, the Registrar of Banks, *inter alia*:

- provided guidance regarding matters relating to loss absorbency requirements and the relevant "trigger events" for such capital instruments. In terms of this guidance, the issuing company must contractually stipulate upon the issue of the capital instrument whether that instrument is intended either to be written-off or to be converted into ordinary shares;
- issued guidance that currently the relevant “trigger event” for both Additional Tier 1 capital instruments (accounted for as equity) and Tier 2 capital instruments would be at the discretion of the Registrar of Banks and would be the earlier of:
  - a decision that a write-off, without which the company would become non-viable, is necessary, as determined by the Registrar of Banks; or
  - the decision to make a public sector injection of capital, or equivalent support, without which the company would have become non-viable, as determined by the Registrar of Banks;
- issued guidance that currently the relevant “trigger event” for Additional Tier 1 capital instruments (accounted for as liabilities) would be at the discretion of the Registrar of Banks and would be the earlier of:
  - a decision that a write-off, without which the company would become non-viable, is necessary, as determined by the Registrar of Banks; or
  - the decision to make a public sector injection of capital, or equivalent support, without which the company would have become non-viable, as determined by the Registrar of Banks; or
  - the point at which the company's common equity tier 1 ratio, (“**CET1 Ratio**”), that is, the ratio of common equity tier 1 capital and reserve funds to risk weighted exposure (all as determined in accordance with the Regulations Relating to Banks) of the company) is equal to or falls below 5.875 per cent.;
- advised that the SARB and the National Treasury were in the process of drafting statutory legislation for the South African recovery and resolution regime that will also make provision for statutory bail-in; and
- advised that it is foreseen that once this legislation becomes enforceable, the contractual terms and conditions regarding conversion or write-off of instruments already issued and qualifying as regulatory capital are likely to take precedence over the relevant statutory legislation requirements, once the specified trigger event is breached. Therefore, the contractual terms and conditions under which Notes are issued are likely to remain in force for the capital instruments issued prior to the introduction of the relevant statutory legislation.

The guidance note, while it has reduced some uncertainties, does not solve the uncertainty regarding whether the Registrar of Banks is likely to exercise his discretion that the point of non-viability in respect of a particular bank is reached at levels significantly higher than a CET1 Ratio of 5.875 per cent. in respect of Additional Tier 1 capital instruments (accounted for as liabilities) and what those higher levels may be. Nor does it give guidance on the capital levels at which, or circumstances under which, the Registrar is likely to exercise his discretion that a trigger event has occurred in respect of Additional Tier 1 capital instruments (accounted for as equity) or Tier 2 capital instruments. As it remains difficult to predict the precise effects of the changes that may result from the implementation of Basel III, particularly the manner in which the discretion accorded to the Registrar of Banks will be exercised, this makes it difficult to issue such instruments with standard terms and, therefore, in requisite volumes at acceptable prices.

Basel III requires that non-common equity capital instruments issued pre-1 January 2013, which do not meet the Basel III, loss absorbent, criteria, be “grandfathered”, that is, phased out over a 10-year period from 1 January 2013. All of African Bank’s tier 2 capital instruments issued prior to 1 January 2013 are eligible for grandfathering. The ability of African Bank to replace these instruments with “loss absorbent” instruments over the ten-year period will depend on the extent to which the text of the amendments to the Banks Act has been finalised and clear guidance regarding the probable point of non-viability is given by the Registrar of Banks to enable the issue of such instruments in significant volumes, the appetite of the capital markets for these types of instruments (given that all banks will be coming to the markets to make such issuances) and the ability to issue such instruments at a price mutually acceptable to African Bank and its investors.

#### ***National Credit Regulator***

The NCR oversees market regulation and supervision of the credit industry, including unsecured lending. The NCA requires each credit provider to register with the NCR. See “*National Credit Act, 2005*” below.

#### ***Financial Services Board (“FSB”)***

The FSB has been established in terms of the Financial Services Board Act, no, 97 of 1990 as an independent institution to oversee the South African non-banking financial services industry in the public interest. The FSB is both a supervisory and enforcement regulatory authority that ensures compliance with the laws regulating financial institutions, which includes a long-term and short-term insurers as well as regulating FSP’s who sell financial products as regulated in terms of the FAIS Act.

#### ***Financial Intelligence Centre (“FIC”)***

The FIC has been established in terms of the Financial Intelligence Centre Act, No. 38 of 2001, as a regulatory body to maintain an effective policy and compliance framework and operational capacity to oversee compliance and to provide high quality, timely financial intelligence for use in the fight against crime, money laundering and terror financing in order for South Africa to protect the integrity and stability of its financial system, develop economically and be a responsible global citizen.

#### **BANKS ACT, 1990**

One of the principal purposes of the Banks Act is to protect the public by regulating and supervising the entities which take their deposits. The relevant provisions of the Banks Act ensure that, for the protection of the public, deposits of money may only be made with and accepted by banks which are registered under, and regulated in terms of, the Banks Act, subject to certain specified exemptions.

No person may carry on “the business of a bank” unless such person is registered as a bank, or as the banking branch of a foreign bank, in terms of the Banks Act.

South African banks are required to comply with the Banks Act, the Regulations Relating to Banks and certain other regulations. The Banks Act, the Regulations Relating to Banks, other regulations issued under the Banks Act and the circulars issued by the Registrar of Banks set out the framework which governs the formal relationship between South African banks and the SARB. Each bank is obliged to furnish certain prescribed returns to the Registrar of Banks in order to enable him to monitor compliance with the formal, prudential and other requirements imposed on banks by the Banks Act. The Regulations Relating to Banks may be (and are) amended from time to time in order to provide for amendments and additions to the prescribed returns, and the frequency of submission thereof. See “*South African Reserve Bank*” above.

In terms of the Banks Act, the Registrar of Banks has the right to apply for the winding-up of a bank and he may oppose any such application by another person. Only a person approved by the Registrar of Banks may be appointed as the liquidator of a bank.

In addition to liquidation, a bank may be placed under curatorship by the Minister of Finance if the Registrar of Banks is of the opinion that such a bank is in financial difficulty (if, for instance, such a bank is unable to repay its deposits). On appointment of the curator, the management of the bank vests in the curator, subject to the supervision of the Registrar of Banks. The curator is vested with the power to sell the assets of the bank, provided that such sale is in the ordinary course of such bank’s business. While a bank is under curatorship, all actions, legal proceedings and legal process against the bank, including rights under collateral arrangements are stayed and may not be instituted or proceeded with, without the leave of the court.

#### **NATIONAL CREDIT ACT, 2005**

As a result of the increasingly diversified business activities of South African banks and their central role in the provision of credit in the retail market, legislation aimed at protecting certain types of consumers has been enacted in South Africa. The NCA regulates, among others, the granting of consumer credit and advanced

standards of consumer information and has made significant changes to the interest, costs and fees which retail banks and other credit providers may charge consumers in South Africa. The maximum prescribed interest rates which may be levied on credit agreements are set out in the regulations to the NCA. The NCA further stipulates a closed list of costs and fees which may be recovered under a credit agreement in addition to the capital amount and interest. These are an initiation fee, a monthly service fee, default administration costs and collection costs. Other charges which may be applicable are strictly regulated and may only be levied if specifically listed in the NCA, and to the extent permitted. The NCA also requires each credit provider to register with the NCR. In addition, certain credit agreements which contain unlawful provisions in terms of the NCA could potentially be rendered *void ab initio*.

On 29 May 2013, the National Credit Amendment Bill, 2013 as well as the “*Draft National Credit Act Policy Review Framework, 2013*” were published for comment, with the revised draft Bill tabled in Parliament later in 2013.

Pursuant to further amendments introduced by the Parliamentary Portfolio Committee in February 2014, the Amendment Bill was passed in the National Assembly on 27 February 2014 and by the National Council of Provinces on 26 March 2014 and awaits signature by the President of South Africa before being passed into law.

The amendments, among others, include:

- provisions requiring the NCR to apply additional criteria relating to a credit provider’s compliance with certain codes of conduct and affordability assessment regulations (still to be prescribed by the Minister of Trade and Industry) as well as such credit provider’s commitment to combatting over-indebtedness when the NCR considers registration of that credit provider in terms of the NCA. This may affect the annual renewal of a credit provider’s registration with the NCR, as it entitles the NCR to reject an application if these compliance requirements are not met;
- provisions empowering the NCR, at any time during a year of registration, to review and propose new conditions if the NCR, on compelling grounds, deems it necessary for the attainment of the purposes of the NCA and the efficient enforcement of its functions. This amendment appears to enable the NCR to review and impose new conditions during the course of a registration year which may, depending on the nature and extent of the new conditions, create operational and regulatory challenges for credit providers;
- provisions requiring the Minister of Trade and Industry, on recommendation from the NCR, to introduce affordability assessment regulations, and although each credit provider may still determine its own evaluative mechanisms, these must not be inconsistent with the affordability assessment regulations made by the Minister of Trade and Industry;
- provisions empowering the Minister of Trade and Industry, in consultation with the Minister of Finance, to prescribe limits in respect of the cost of credit insurance that a consumer may be charged in connection with a credit agreement. Prior to these amendments, the NCA allowed for the credit provider to require credit life insurance cover but only required that such charge be “reasonable”. Depending on the extent of the limit which the Minister of Trade and Industry may impose, this new amendment has the potential to materially impact the profit margins earned on credit life insurance products by insurance companies;
- provisions which prohibit the selling or collection of outstanding debts which have prescribed. This amendment means that credit providers can no longer collect on loans where no legal action has been taken and no payments have been received for 3 years. African Bank and other credit providers will need to improve their processes to ensure that legal action is taken on accounts in good time prior to the debt having prescribed, while also taking into account the cost impact of this. This will also impact the ability of African to collect existing non-performing and written-off loans which have prescribed;
- provisions which allow consumers to remedy defaults through full payment, if the credit agreement has not been terminated, and for preventing the restoration of credit agreements after termination *via* due process and execution of a court order. The provisions also specify acceptable methods for the delivery of default notices to consumers;
- provisions empowering the Minister of Trade and Industry to prescribe at any time which consumer credit information held by credit bureaus should be reviewed, verified, corrected or removed. This enables the Minister of Trade and Industry to authorise “credit bureau amnesties” such as was effected in April 2014, where certain adverse information is removed from a credit bureau’s records. (See “*Credit Amnesty*” below.);

- provisions requiring the training of staff and agents on the requirements of the NCA to be in accordance with prescribed requirements and standards as provided by the Minister of Trade and Industry, with the aim of improving standards of market conduct and the quality of product delivery;
- provisions empowering the NCR to deal with complaints concerning allegations of reckless credit and to take any necessary enforcement action provided for in the NCA. This amendment appears to be a measure to increase the statutory powers of the NCR in respect of the management and treatment of complaints concerning reckless credit;
- the broadening of the definition of prohibited conduct to include any contravention of the NCA. This, along with the broadening of the scope of enforcement powers of the NCR, extensively expands the scope for actions to be brought against credit providers contravening the NCA;
- amendments to bring certainty to the contentious issue of exactly when a credit provider can terminate debt review proceedings in respect of a particular credit agreement while a consumer is in default under such credit agreement. The amendment has the effect that a credit provider will be precluded from terminating a debt review application during the period after a consumer has lodged the application in court until such an application for debt review is granted. This may lead to considerable delays due to the congested Magistrates' court processes;
- granting National Consumer Tribunal (the “**Tribunal**”) the same powers that currently vest in the Magistrates' courts under the NCA with regards to the suspension of reckless credit agreements. This amendment would allow consumers to approach the Tribunal directly for assistance in this regard and credit providers may have to prepare for a possible increase in matters based on allegations of reckless credit. Furthermore, since the jurisdictional foundation of the Tribunal and the Magistrates' courts are situated in different pieces of legislation, there may be initial teething problems and credit providers may have to accommodate a different “jurisprudential approach” by the Tribunal in relation to reckless credit matters;

In addition, the *Draft National Credit Act Policy Review Framework* document raised for discussion an issue that the DTI perceives to be an implementation discrepancy in the NCA relating to fixed and variable interest rates and how these relate to the maximum permissible rate of interest set in terms of the NCA. The discussion relates to what should occur with regard to interest rates set for the duration of credit agreements which at the time the relevant credit agreements are concluded are at interest rates equal to or below the prescribed maximum rate of interest but which subsequently, as a result of the reduction of such prescribed maximum rate, exceed such prescribed rate.

The DTI has expressed concerns that, since the maximum prescribed rate of interest is determined with reference to a formula linked to the SARB repo rate, and credit providers have an information advantage over consumers as to when changes in the SARB repo rate are likely to happen, this encourages credit providers to keep pricing at the maximum level when a rate cut is anticipated. The DTI has suggested that it would be prudent to ensure clarity that even a fixed rate must fall within the maximum prescribed rate. Notwithstanding this discussion, this issue was not dealt with in the latest amendments to the NCA.

For further discussion on this and other NCA risks see “*Risk Factors – Risk relating to the Issuer - The Issuer operates in a highly regulated environment which is subject to change – The National Credit Act and unsecured lending*”.

## **FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT, 2002**

The purpose of the FAIS Act is to regulate the rendering of certain financial advisory and intermediary services to clients and to provide for matters incidental thereto. The FAIS Act prohibits a person from offering or acting as a financial services provider (“**FSP**”) unless such person has been issued with a licence by the registrar or deputy registrar of the Financial Services Board (“**Registrar**”). An authorised FSP or a representative is only permitted to conduct financial services-related business with a person rendering financial services if that person has, where lawfully required, been issued with a licence for the rendering of such financial services and the conditions and restrictions of that licence authorises the rendering of those financial services, or is a representative as contemplated in the FAIS Act.

An FSP has been defined to mean any person, other than a representative, who as a regular feature of the business of such person furnishes advice or renders any intermediary service or both. The concept “advice” and “intermediary service” have been broadly defined to capture almost any engagement in respect of a financial product. The FAIS Act also provides certain exemptions and exclusions in respect of these concepts. The Registrar has been authorised in terms of the FAIS Act, *inter alia*, to suspend or withdraw a licensee’s authorisation, grant exemptions in respect of certain product suppliers, prescribe qualifications applicable to representatives, debar representatives, publish codes of conduct, require the appointment of compliance officers,

prescribe accounting and audit requirements, appoint ombudsmen, declare certain activities undesirable practices and enforce the provisions of the FAIS Act.

The concept “advice” has been defined in the FAIS Act as any recommendation, guidance or proposal of a financial nature furnished, by any means or medium, to any client or group of clients in respect of the purchase of any financial product or the investment in any financial product or on the conclusion of any other transaction, including a loan or cession, aimed at the incurring of any liability or the acquisition of any right or benefit in respect of any financial product or on the variation of any term or condition applying to a financial product on the replacement of any such product or on the termination of any purchase of or investment in any such product. It is also irrelevant whether such advice is furnished in the course of or incidental to financial planning in connection with the affairs of the client or if it results in any purchase, investment, transaction, variation, replacement or termination, as the case may be, being effected.

Notwithstanding this extensively wide definition of “advice”, the FAIS Act specifically excludes from this definition factual advice given merely on the procedure for entering into a transaction in respect of any financial product or in relation to the description of a financial product or in answer to routine administrative queries or in the form of objective information about a particular financial product or by the display or distribution of promotional material.

An “intermediary service” is defined as any act other than the furnishing of advice, performed by a person for or on behalf of a client or product supplier, the result of which is that a client may enter into, offer to enter into or enters into any transaction in respect of a financial product with a product supplier or with a view to buying, selling or otherwise dealing in (whether on a discretionary or non-discretionary basis), managing, administering, keeping in safe custody, maintaining, or servicing a financial product purchased by a client from a product supplier or in which the client has invested or collecting or accounting for premiums or other moneys payable by the client to a product supplier in respect of a financial product or receiving, submitting or processing the claims against a product supplier.

A key individual in relation to an authorised FSP or a representative is any natural person who is responsible for managing or overseeing either alone or together with other so responsible persons, the activities of the corporate body relating to the rendering of any financial service. A key individual is a natural person who is responsible for managing or overseeing the activities of an authorised FSP or a representative.

A representative is a person who renders a financial service to a client for or on behalf of an FSP, in terms of conditions of employment or any other mandatory agreement but excludes a person rendering clerical, technical, administrative, legal, accounting or other service in a subsidiary or subordinate capacity, which service does not require judgement on the part of the latter person or does not lead a client to any specific transaction in respect of a financial product in response to general enquiries. A representative could be a natural person, partnership, trust, an organ of state, a company or any body of persons corporate or unincorporated.

African Bank is a licensed FSP and is authorised to carry on business in respect of financial advisory services and financial intermediary services and have both appointed key individuals in terms of the FAIS Act.

The branch personnel at African Bank branches do not provide advice. The engagement between a customer and a sales consultant does not involve the giving of advice, instead the engagement is restricted to the exchange of factual information relating to a financial product (credit life insurance products, funeral policies and product insurance). In the event that a customer requires advice, such customer is referred to an insurance advice call centre that is staffed by registered representatives who have the appropriate qualification to give such advice.

Industry role players in the low-income insurance market have historically taken the view that branch personnel conduct purely an administrative function and as such, are not required to be registered as representatives. Such position was submitted to the FSB *inter alia* by African Bank in 2011. More recently however, with the new Twin Peaks regulatory framework developments (see the section headed “Regulatory Developments”- “Implementing a twin peaks model of financial regulation in South Africa” below) and the intention to require equal and raised standards across the broader financial sector, the National Treasury has clarified the position by publishing the Insurance Laws Amendment Bill, 2013 for public comment. This Bill proposes to amend the wording of the definition of an intermediary service to include within its ambit any act which results in a sale of a financial product, which will impact African Bank’s branch personnel and their FAIS registration requirements. The FSB has also published Proposed Amendments of Fit and Proper Requirements and Accompanying Measures for comment (in respect of the FAIS Act). It is expected that staff engaging in simpler products will be able to write an easier exam and meet different requirements to be registered as representatives.

Pursuant to an engagement between African Bank and the FSB, it was agreed that African Bank may register a number of its branch staff members as representatives and the majority of its branch staff members as

representatives under supervision for funeral product sales only. If the new legislative amendments become law, the effect will be that, should African Bank provide financial advisory services and financial intermediary services in respect of other insurance products, it will need to apply to the FSB to have its FSP licence amended. In addition, branch personnel involved in the selling of such insurance products will most likely need to undergo further training and complete the prescribed qualifications requirements in order to comply with such new regulatory requirements.

The extent to which the proposed changes are enacted cannot be predicted with certainty. The above description of the proposed changes is based in part on proposed regulations and official guidance that is subject to change.

## **REGULATORY DEVELOPMENTS**

### **Implementing a twin peaks model of financial regulation in South Africa<sup>1</sup>**

The Financial Regulatory Reform Steering Committee (“**FRRSC**”), comprising the National Treasury, the SARB and FSB was tasked by the Minister of Finance and the Governor of the Reserve Bank to prepare detailed proposals on the implementation of the “**Twin Peaks**” approach, which was proposed by the Minister of Finance in the 2011 Budget. The “Twin Peaks” approach entails creating a prudential regulator housed in the SARB and transforming the FSB into a dedicated market conduct regulator.

The shift to a Twin Peaks approach to financial regulation is part of a broader financial regulatory reform agenda. These proposals were contained in the Government’s policy document entitled, “*A safer financial sector to serve South Africa better*”, and were formally approved by Cabinet of the Government in July 2011. On 1 February 2013, the FRRSC published for public comment a summary of the proposals for implementing the Twin Peaks model of financial regulation in which it was noted that the Government, through the Minister of Finance, is responsible for the policy framework for the regulation of the financial system. In terms of this framework, the SARB will take a leading role in promoting financial system stability by becoming the systemic regulator for the South African financial system, and supervising and monitoring the financial system to give effect to the financial stability objectives.

The objective of the dedicated prudential regulator, housed in the SARB, will be to maintain and enhance the safety and soundness of regulated financial institutions. The SARB, as the prudential regulator will be responsible for the prudential regulation and supervision of banks and insurers. In this context, prudential regulation includes both micro and macroprudential aspects. The term “macroprudential” regulation or supervision refers to the analysis of strengths and vulnerabilities of financial systems as a whole (“**systemic risk**”). Macroprudential assessments cover a wide range of economic and financial circumstances and information, such as gross domestic product growth and inflation, the structure of a financial system, the qualitative information on the institution and regulatory framework. The term “microprudential” refers to the safety and soundness of individual financial institutions.

The market conduct regulator’s objective will be to protect consumers of financial services and promote confidence in the South African financial system. This responsibility will be carried out by the FSB, which will be transformed in order to meet its mandate with regard to market conduct regulation.

The FRRSC has indicated that the Twin Peaks model is expected to take place in two phases: the first phase will run during 2013/2014 and will involve relevant legislation being developed and tabled in parliament to enable the regulators to deliver on their revised mandates. The next step will include integrating resources and staff who are currently responsible for prudential management from the FSB into the SARB.

The second phase, which the FRRSC has advised is to be implemented over the medium term, will consist of harmonising specific financial sector legislative, regulatory and supervisory systems and frameworks.

The extent to which the proposed changes are enacted cannot be predicted with certainty. The above description of the proposed changes is based in part on proposed regulations and official guidance that is subject to change.

### **Treating Customers Fairly policy (“TCF”)**

As described above, the “Twin Peaks” approach entails creating a prudential regulator housed in the SARB and transforming the FSB into a dedicated market conduct regulator. As part of its regulation of market conduct, the FSB announced in 2011 that it would be implementing TCF for the financial services industry in South Africa. TCF is a customer protection policy designed to address the problem of asymmetric information in the financial services industry where financials service providers possess certain information that the customers do not.

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<sup>1</sup> This information is extracted from the policy document published for public comment by the FRRSC on 1 February 2013 titled “*Implementing a twin peaks model of financial regulation in South Africa*”.

According to the FSB, this asymmetry of information arises in that, typically, financial institutions have far more expertise and resources available to them in designing, distributing and servicing financial products than customers have available to them in making decisions about financial transactions.

TCF is a regulatory approach that seeks to ensure that specific, clearly articulated fairness outcomes for financial services customers are demonstrably delivered by regulated financial institutions. The six defined fairness outcomes are:

- Customers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
- Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly.
- Customers are given clear information and are kept appropriately informed before, during and after the time of contracting.
- Where customers receive advice, the advice is suitable and takes account of their circumstances.
- Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect.
- Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

Delivery of these specific outcomes is intended, in turn, to ensure the supply of appropriate financial products and services to customers and enhanced transparency and discipline in financial institutions, resulting in improved customer confidence. The final desired outcome is that customers' financial services needs are appropriately met through a sustainable financial industry.

TCF will require regulated firms to consider their treatment of customers at all stages of their relationship with the customer, from product design and marketing, through to the advice, point-of-sale and after-sale stages. Firms will ultimately be required to demonstrate – through management behaviours and monitoring – that they are consistently treating customers fairly throughout the stages of the product life cycle to which they contribute.

Further, TCF expressly requires its principles to be embedded in every aspect of the organisation, with the board of directors having active oversight along with the full engagement and active participation of senior management and all staff members.

Under the TCF regime, there will need to be on-going, objective evidence that customers are fairly treated. It is expected and required that:

- management information mechanisms designed to monitor and measure performance in delivering the six fairness outcomes are in place along with extensive reporting requirements; and
- firms must demonstrate that they have analysed that management information they have gathered to identify TCF risks and areas for improvement and that they acted upon these findings to enhance their customers' experience.

To formally implement and enforce TCF, the FSB will be required to make a number of regulatory amendments to legislation such as the FAIS Act that regulates the provision of financial services (advice and intermediary services) in South Africa. Although the FAIS Act currently has elements of TCF within its regulations, including financial product marketing guidelines and disclosure requirements to customers, it is anticipated that the TCF requirements will be more extensive. The FSB has indicated that it is in the process of introducing TCF into both its regulatory and supervisory frameworks on a gradual, incremental basis. (Although there will be explicit inclusion of TCF principles in future new, over-arching legislation to be introduced in time under Twin Peaks, the FSB are of the view that existing legislative and regulatory frameworks already allow the FSB to introduce most elements of TCF.) TCF will also be implemented across all of the financial sectors and therefore may require amendments to retirement fund, insurance and collective investment schemes legislation. The extent to which the proposed changes are enacted cannot be predicted with certainty.

The FSB's projected timeline for full implementation of TCF in relation to insurance products and financial advisory services related thereto was by 2014. FSB has indicated that there is not going to be a once-off "big bang" TCF implementation date. While TCF will not be applied retrospectively, firms will be expected to review their current product and service offerings against TCF standards, and take appropriate action if they find

that TCF outcomes are not being delivered. TCF projected implementation timeline in respect of banking products is not finalised.

The ABIL Group has formally adopted the TCF objectives and has committed to its implementation. The TCF self-assessment questionnaire prepared by the FSB has been completed by the insurance companies within the group to assist the ABIL Group to gauge its TCF readiness levels. A TCF insurance steering committee has been established which has performed a gap-analysis on their current business practices based on the self-assessment undertaken and a plan of action has been developed in response to this analysis. The ABIL Group is also implementing an awareness programme so that senior management, departmental leaders and all staff members are introduced to TCF, with TCF reviews also to be included in risk management, compliance and internal audit functions. The ABIL Group will take cognisance of fairness outcomes when implementing remuneration, incentive and reward policies in the group.

Further, management information mechanisms designed to assess, analyse and act on findings to improve on TCF outcomes are being established. New product design, research, testing and evaluation is being undertaken to ensure the suitability of new products for identified customer groups and the ABIL Group continues to monitor and analyse product retention, portfolio switching and early termination behaviour of customers to identify risks that products or services are not meeting customers' expectations. African Bank has also improved on the complaints process to ensure this is more user-friendly and easily accessible to customers in anticipation of full TCF implementation.

### **Changes in respect of Early Debit Orders**

The National Payment System ("NPS") encompasses the entire payment process from payer to beneficiary and includes settlement between banks which consists of a set of instruments, banking procedures and interbank funds transfer systems that ensure the circulation of money.

Pursuant to the National Payment System Act, no. 78 of 1998 (as amended) ("the NPS Act"), the SARB is required to provide for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in South Africa.

In terms of the NPS Act, the SARB is empowered to issue directives to any person regarding any payment system. Prior to and during 2006 the retail banks in South Africa allowed, for collection purposes, practices where certain beneficiaries' payment instructions were granted preferential treatment over others. In particular, these preferential practices included the abuse of the ATM system (through the retention of debtors card and personal identification number storage) as well as the order of collections through debit order methods being sorted and loaded in a preferential order in respect of a particular account. The access to such preferential payment mechanisms was not available to all creditors with the result that certain classes of beneficiaries of debit orders had access to account-holder funds before others.

As a result of these practices the SARB issued directive number 2 on 26 May 2006 which provided for the phasing out of these existing preferential practices and specifically allowed for early debit orders ("**EDO**") to be processed first against a debtor's bank account, after "bulk credit" such as salaries had been posted to such accounts. Two new payment systems were implemented in South Africa in September 2006 which facilitated the processing of EDO's, namely AEDO, being authenticated early debit orders (which are authenticated by the account-holder in person through an electronic signature) and NAEDO, being non-authenticated early debit orders.

Both AEDO and NAEDO are processed on a randomised, non-preferential basis, providing every beneficiary (including the account-holder's own account bank) with a fairer opportunity to recover payments due from the account. Beneficiaries are also entitled to enhance their ability to collect successfully by utilising a "tracking service" offered by the paying bank. A NAEDO payment instruction, enhanced by a tracking service, results in the deduction instruction being processed from the mandated debit order date over a selected tracking period. The instruction is then kept in the background and triggered whenever a credit is applied to the relevant account.

Previously, debits in AEDO and NAEDO had a capped limit of R5 000 per transaction. From 1 September 2013 and as a result of representations made by certain beneficiaries, including the retail banks, who required higher EDO collections capabilities due to the greater size of the loans they grant, the EDO capped item limit was increased from R5 000 to R10 000. A further increase in this limit from R10 000 to R15 000 took effect from March 2014.

African Bank largely relies on NAEDO for its debit order collection processes as most of its customers' instalments fall within the NAEDO limit. The changes referred to above are not expected to have a material impact on African Bank's collection activities.

### ***Protection of Personal Information Act, 2013***

The Protection of Personal Information Act (as amended) (“**POPI Act**”) was signed into law on 26 November 2013 on the basis that the commencement date of the POPI Act was still to be announced. On 11 April 2014, the President of South Africa set the commencement date (being with immediate effect) for certain administrative sections of the POPI Act (such as the sections dealing with the establishment and powers, duties and functions of the new regulatory body, called the Information Regulator, tasked with monitoring and regulating compliance with the POPI Act as well as the regulations that may be made, and the procedure for making those regulations under the POPI Act). The remaining sections of the POPI Act will only commence on a date still to be determined by the President of South Africa. There will be a 12 month period to allow for implementation of the requirements of the POPI Act relating to the processing of personal information after the commencement date of the section dealing with the transitional arrangements under the POPI Act, which date has not yet been determined.

The POPI Act has been introduced to give effect to the constitutional right to privacy and protects individuals against the unlawful collection, use, retention and dissemination of personal information. This legislation places obligations on organisations in terms of the manner in which they obtain, capture, process, retain and destroy personal information, ensuring that consent is obtained and that the information is protected at all times, with specified exceptions.

The POPI Act will have a significant impact on how the Bank presently processes customer and employee personal information on a confidential basis, implements measures to safeguard the information, retains the information for the purposes for which it was collected and disposes of the information when there is no longer a valid reason for which to keep the information. Pursuant to the requirements of the POPI Act, the chief information officer, the board of directors and management are required to understand their roles and responsibilities in respect of such requirements. Non-compliance with the POPI Act may lead to a civil action against the Bank for damages, regardless of whether intent or negligence can be proven on the part of the responsible party and to an enforcement notice being issued by the appropriate authorities. Failure to comply with an enforcement notice would constitute an offence under the POPI Act, and may result in fines up to R10,000,000 or imprisonment. The Bank is assessing all systems, processes, policies and practices given the proposed requirements and will implement changes in its management processes as necessary.

### **Credit Amnesty**

The Removal of Adverse Consumer Credit Information and Information Relating to Paid Up Judgments Regulations, 2014 (‘the Regulations’) came into effect on 1st April 2014.

Registered credit bureaus are required to remove, *inter alia*, the following information, held on the database as at 1 April 2014, from their records:

- all adverse credit information of consumer behaviour such as “delinquent”, “default,” and “slowing paying information.”
- all adverse credit information of enforcement action taken by the credit provider such as “handed over to collections” or “write-off.”
- all adverse credit information (as described in the two sub-paragraphs above) contained within the payment profile of a consumer.

Credit bureaus are further required to remove all paid up civil court judgments (i.e. where the consumer has settled the capital amount). As at 1 April 2014, the adverse consumer credit information, as described above, as well as all paid up civil court judgments, will no longer be displayed on the credit bureau records.

The rationale behind the amnesty is to clear the adverse information for those customers that have settled their obligations that were previously adversely listed. This will enable these customers to have access to credit that were previously excluded due to this adverse information.

While the terms of the credit amnesty are positive for customers’ credit records, it may have an impact on the credit providers’ ability to assess credit risk accurately, which in turn could impact the amount of credit granted as well as the cost of credit to the customer.

Preliminary analysis by African Bank indicates that the impact of this Credit Amnesty will not be material to the group as it places great reliance, in its risk assessment processes, on the payment records in respect of customers' credit agreements.

## **OTHER PRINCIPAL LEGISLATION**

### **Consumer Protection Act, 2008**

The Consumer Protection Act, no.68 of 2008 (as amended) (the "CPA") came into effect in South Africa on 1 April 2011 and regulates the relationship between suppliers and consumers in order to protect the rights of the consumers. The CPA applies where a supplier transacts with a consumer for the provision of goods and services, and that transaction occurs in South Africa in the ordinary course of a business continuously carried on by the supplier, unless exempt under the CPA. The CPA protects consumers who are (i) natural persons and (ii) small business entities with assets or an annual turnover of less than R2 000 000.

The CPA does not apply to transactions between juristic entities unless the consumer to a transaction is a juristic entity with assets or an annual turnover of less than R2,000,000, nor does it apply to credit agreements governed by the NCA. The primary activity of the Bank is lending through agreements governed by the NCA and the majority of the Bank's borrowing arrangements are with juristic entities with assets or an annual turnover equal to or greater than R2,000,000.

Section 14 of the CPA gives consumers the right to cancel fixed term contracts on 20 business days' notice. Banks registered in terms of the Banks Act and mutual banks registered in terms of the Mutual Banks Act, 1993 (as amended) are exempt from the provisions of section 14. Accordingly, fixed deposits with banks are not subject to this notice provision. Deposits with banks by natural persons and small business entities with assets or an annual turnover of less than R2,000,000 may however be subject to other protections under the CPA.

The CPA requires businesses to transform the way in which they interact with consumers and to ensure that all dealings with consumers are fair, reasonable and honest.

Suppliers are strictly liable for any harm caused by goods provided by them to consumers. The CPA also sets out the requirements for the form and content of consumer agreements. Any unjust, unreasonable or unfair contractual term (mainly those which are excessively one-sided, inequitable or unconscionable) may be altered or declared void, from the date it purportedly took effect, by a court in South Africa. A number of provisions in an agreement will be void unless fair in the circumstances, including certain clauses that commonly appear in standard form contracts.

The CPA creates the possibility for class action suits against suppliers of defective goods, which may result in increased litigation, increased costs in dealing with litigation and increased claims for damages against suppliers of goods. Consumers also have a right to demand the timely performance of services in a manner and quality that consumers are generally entitled to expect, failing which, the consumer will have a right of recourse against the supplier.

### **Anti-money laundering legislation**

Money laundering is regulated by the Prevention of Organised Crime Act, no.121 of 1998 (as amended) ("POCA") and FICA. POCA is an omnibus act dealing, among other things, with money laundering, racketeering and criminal and civil forfeiture, and sets out the substantive money laundering offences. FICA complements POCA and provides an administrative framework to combat money laundering. Generally, FICA requires any person who is employed by a business or who is in charge of or manages a business to report suspicious and unusual transactions relating to the proceeds of unlawful activities connected to the affairs of such business to the Financial Intelligence Centre. Both FICA and POCA are in keeping with worldwide trends aimed at curbing the proceeds of crime, and establishing an anti-money laundering ("AML") and counter terror financing ("CTF") legislative framework (which includes but is not limited to FICA). The mutual evaluation report issued by the Financial Action Task Force, (an inter-governmental body whose purpose is the development and promotion of national and international anti-money laundering and counter terror financing policies) confirmed that South Africa has demonstrated a strong commitment to implementing AML/CTF systems facilitated by close cooperation and coordination among a variety of government departments and agencies. The authorities have sought to construct a system which uses, as its reference, the relevant United Nations Conventions and the international standards as set out by the Financial Action Task Force. The Government also recognises the importance of being able to effectively respond to international instruments such as sanctions resolutions.

The South African banking regulator strives to maintain an effective compliance framework and operational capacity to oversee compliance by banks with AML and CTF standards. The banking regulator co-operates with the South African Financial Intelligence Centre ("**FIC**") by helping to ensure compliance with FIC guidance notes, circulars and other announcements by banks. African Bank has implemented an AML framework which includes CTF policies and takes measures to effect continuous improvement in its processes to address the global AML and CTF risks.

### **Companies Act, 2008**

The Companies Act came into effect on 1 May 2011. Save as set out below, the Companies Act has replaced the Companies Act, 1973 (the "**Old Companies Act**") in its entirety. The Bank is subject to the applicable provisions of the Companies Act.

Under the Companies Act, subject to certain provisions set out in the transitional arrangements, every pre-existing company (including the Bank) that was incorporated or registered under the Old Companies Act prior to 1 May 2011 will continue to exist as a company, as if it had been incorporated and registered under the Companies Act, with the same name and registration number previously assigned to it. Banks are categorised as "*for profit public companies*" under the Companies Act.

The Companies Act extends shareholders' rights against companies and directors. Directors, prescribed officers and committee members will now face more extensive and potentially stricter grounds for personal liability for their actions as they relate to the company than they did under the Old Companies Act. The Companies Act introduces the possibility of class action suits against companies, directors and company officers by persons whose rights are affected by the company. Companies may thus face a greater risk of litigation and associated costs.

The Companies Act provides that, until a date to be determined by the Minister of Trade and Industry, the Old Companies Act will continue to apply with respect to the winding-up and liquidation of companies under the Companies Act, as if the Old Companies Act had not been repealed, subject to certain provisions set out in Schedule 5. Accordingly, the winding-up of companies continues to be regulated by both the Old Companies Act and the Insolvency Act, 1936 (as amended).

Chapter 6 of the Companies Act introduces "*business rescue proceedings*", a substantively non-judicial, pre-insolvency commercial process that, in the first instance, aims to rescue a financially distressed company and maximise the likelihood of the company's continued existence on a solvent basis.

The Banks Amendment Act 22 of 2013 which was promulgated on 10 December 2013 has clarified that the business rescue provisions in the Companies Act are not applicable to banks.

The winding-up of banks is further governed by the Banks Act. Under the Banks Act, the Registrar of Banks has the right to apply for the winding-up of a bank and may oppose any such application by another person. In addition to liquidation a bank may, under the Banks Act, be placed under curatorship by the Minister of Finance if the Registrar of Banks is of the opinion that the bank is in financial distress.

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## **SOUTH AFRICAN TAXATION**

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*Words used in this section headed “South African Taxation” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

*The following is a general description of certain South African tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in that country or elsewhere. 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 any Notes. Prospective investors in Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the Programme Date and is subject to any change in law or rate of taxation that may take effect after such date.*

### ***Withholding Tax***

Under current taxation law in South Africa, all payments made under the Notes to resident and non-resident Noteholders will be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa.

However, a new withholding tax on interest (“**Withholding Tax**”) is expected to be introduced in South Africa, with effect from 1 January 2015, as Part IVB of the Income Tax Act (“**Part IVB**”). In terms of Part IVB, the Withholding Tax will be a final tax and will be levied at a rate of 15 per cent. in respect of interest paid to non-residents. In terms of Part IVB (as currently worded), and subject to any Withholding Tax relief provided for (or to be provided for) in the case of any applicable double tax treaty, the Withholding Tax will be applicable to, and imposed in respect of the amount of any interest that is paid to or for the benefit of any foreign person to the extent that the amount is regarded as having been received or accrued from a source within South Africa.

The Withholding Tax does not, however, apply to payments made by the Issuer to non-resident Noteholders because the proposed provisions exempt from Withholding Tax any amount of interest received by a non-resident Noteholder in respect of any interest paid by a “bank” (as defined in section 1 of the Banks Act).

### ***Securities Transfer Tax***

No securities transfer tax is payable on the issue, redemption or transfer of the Notes in terms of the Securities Transfer Tax Act 2007.

### ***Value-Added Tax (VAT)***

No VAT is payable on the issue or transfer of Notes. Notes (bonds) constitute “debt securities” as defined in section 2(2)(iii) of the South African Value-Added Tax Act, 1991 (the “**VAT Act**”). The issue, allotment, drawing, acceptance, endorsement or transfer of ownership of a debt security is a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act.

Commissions, fees or similar charges raised for the facilitation of these services will however be subject to VAT at the standard rate (currently 14 per cent.), except where the recipient is a non-resident as contemplated below.

Services (including exempt financial services) rendered to non-residents who are not in South Africa when the services are rendered, are subject to VAT at the zero rate in terms of section 11(2)(1) of the VAT Act.

### ***Income Tax***

Under current taxation law effective in South Africa, a “resident” (as defined in section 1 of the South African Income Tax Act 1962 (as amended) (the “**Income Tax Act**”)) is subject to income tax on his/her world-wide income. Accordingly, all Noteholders who are tax resident in South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any interest earned in relation to the Notes. Non-residents of South Africa are subject to income tax on all income derived from a South African source (subject to applicable double taxation treaties). Interest income is derived from a South African source if it is incurred by a South African tax resident (unless it is attributable to a foreign permanent establishment of that resident) or if it is derived from the utilisation or application in South Africa by any person of funds or credit obtained in terms of any form of “interest-bearing arrangement”. The Notes will constitute an “interest-

bearing arrangement". The Issuer is tax resident in South Africa as at the date of this Programme Memorandum. Accordingly, the interest earned by a Noteholder will be from a South African source and subject to South African income tax unless such interest income is exempt from South African income tax under section 10(1)(h) of the Income Tax Act (see below).

Under section 10(1)(h) of the Income Tax Act (which will be effective for all amounts of interest that accrue or is paid on or after 1 July 2013), any amount of interest which is received or accrued (during any year of assessment) by or to any person that is not a resident of South Africa is exempt from income tax, unless that person:

- (a) is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is received or accrued by or to that person; or
- (b) at any time during the twelve-month period preceding the date on which the interest is received or accrued by or to that person carried on business through a permanent establishment 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. Noteholders 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.

In terms of section 24J of the Income Tax Act, broadly speaking, any discount or premium to the principal amount of a Note is treated as part of the interest income on the Note. Interest income which accrues (or is deemed to accrue) to a Noteholder is deemed, in accordance with section 24J of the Income Tax Act, to accrue on a day-to-day basis until that Noteholder disposes of the Note or until maturity. This day-to-day basis accrual is determined by calculating the yield to maturity (as defined in Section 24J) and applying this rate to the capital involved for the relevant tax period. The premium or discount is treated as interest for the purposes of the exemption under section 10(1)(h) of the Income Tax Act. With effect from 1 January 2014, section 24JB will deal with the fair value taxation of financial instruments for certain types of "covered persons", for example, South African banks.

### ***Capital Gains Tax***

Capital gains and losses of residents of South Africa on the disposal of Notes are subject to capital gains tax unless the Notes are purchased for re-sale in the short term as part of a scheme of profit making, in which case the proceeds will be subject to income tax. 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. If the Notes are disposed of or redeemed prior to or on maturity, a gain or loss must be calculated. The gain or loss is deemed to have incurred or to have accrued in the year of assessment in which the transfer or redemption occurred. The calculation of the gain or loss will take into account interest which has already accrued or been incurred during the period in which the transfer or redemption occurs. In terms of section 24J(4A), where an adjusted loss on transfer or redemption includes interest which has been included in the income of the holder, that amount qualifies as a deduction from the income of the holder during the year of assessment in which the transfer or redemption takes place.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to Notes disposed of by a person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that person through which a trade is carried on in South Africa during the relevant year of assessment.

Purchasers are advised to consult their own professional advisers as to whether a disposal of Notes will result in a liability to capital gains tax.

### ***Definition of interest***

The references to "interest" above mean "interest" as understood in South African tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation.

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## SUBSCRIPTION AND SALE

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*Words used in this section headed "Subscription and Sale" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

### **General distribution**

Notes may be distributed by way of private placement, auction, bookbuild or any other means permitted under South African law, and in each case on a syndicated or non-syndicated basis as may be determined by the Issuer and the Relevant Dealer(s) and reflected in the Applicable Pricing Supplement.

### **Dealers undertaking in the Programme Agreement**

The Dealers have in terms of the programme agreement dated 10 September 2001, as may be amended, supplemented or restated from time to time (the "Programme Agreement"), agreed with the Issuer a basis upon which they may from time to time agree to subscribe for Notes or procure the subscription of the Notes.

### **Selling restrictions**

#### ***South Africa***

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree (and will be deemed to have represented and agreed) that it will not solicit any offers for subscription for or sale of the Notes in that Tranche, and will itself not sell the Notes in that Tranche of Notes, in South Africa, in contravention of the Companies Act, the Banks Act, the Exchange Control Regulations and/or any other applicable laws and regulations of South Africa in force from time to time.

In relation to South Africa, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will not make an "*offer to the public*" (as such expression is defined in the Companies Act, and which expression includes any section of the public) of Notes (whether for subscription, purchase or sale) in South Africa. This Programme Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act. Accordingly:

- (a) no offer of Notes will be made to any person in South Africa; or alternatively
- (b) to the extent that any such offer is made, its minimum Specified Denomination shall be R1,000,000 or such higher amount as may be promulgated by notice in the Government Gazette of South Africa pursuant to Section 96(2)(a) of the Companies Act, unless made to certain investors contemplated in section 96(1)(a) of the Companies Act.

#### ***United States***

The Notes have not been and will not be registered under the United States Securities Act, 1933, as amended (the "**Securities Act**") or the securities laws of any state of the United States or other jurisdiction and may not be offered or sold within the United States or to, or for the account of or benefit of, U.S. persons except in certain transactions exempt from, or *via* transactions not subject to, the registration requirements of the Securities Act and applicable state or other securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has or will have agreed (and will be deemed to have represented and agreed) to place that Tranche of Notes will be required to represent and agree (and will be deemed to have represented and agreed) that:

- (a) the Notes in that Tranche have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account of or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act;
- (b) it has not offered, sold or delivered any Notes in that Tranche and will not offer, sell or deliver any Notes in that Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 (forty) days after completion of the distribution, as determined and certified by the Dealer or, in the case of an issue of such Notes on a syndicated basis, the relevant Lead Manager, of all Notes of the Series of which that Tranche of Notes is a part, within the United States or to, or for the account or benefit of, U.S. persons;

- (c) it will send to each dealer to which it sells any Notes in that Tranche during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of such Notes within the United States or to, or for the account or benefit of, U.S. persons; and
- (d) it, its affiliates and any persons acting on its or any of its affiliates behalf have not engaged and will not engage in any directed selling efforts in the United States (as defined in Regulation S under the Securities Act) with respect to the Notes in that Tranche and it, its affiliates and any persons acting on its or any of its affiliates' behalf have complied and will comply with the offering restrictions requirements of Regulation S.

Until 40 days after the commencement of the offering of a Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the Securities Act.

***European Economic Area  
Selling Restriction under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes under this Programme Memorandum as completed by an applicable pricing supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression:

an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State,

“**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and

“**2010 PD Amending Directive**” means Directive 2010/73/EU.

***Selling Restrictions addressing additional United Kingdom Securities Laws***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business;
  - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses;

where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act, 2000 (“**FSMA**”) by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

#### **General**

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to agree that:

- (a) it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in each jurisdiction in which it purchases, subscribes or procures the subscription for, offers or sells Notes in that Tranche or has in its possession or distributes the Programme Memorandum and will obtain any consent, approval or permission required by it for the purchase, subscription, offer or sale by it of Notes in that Tranche under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscription, offers or sales; and
- (b) it will comply with such other or additional restrictions as the Issuer and such Dealer agree and as are set out in the Applicable Pricing Supplement.

**NEITHER THE ISSUER NOR ANY OF THE DEALERS REPRESENT THAT NOTES MAY AT ANY TIME LAWFULLY BE SUBSCRIBED FOR OR SOLD IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY JURISDICTION OR PURSUANT TO ANY EXEMPTION AVAILABLE THEREUNDER OR ASSUMES ANY RESPONSIBILITY FOR FACILITATING SUCH SUBSCRIPTION OR SALE.**

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## **SOUTH AFRICAN EXCHANGE CONTROL**

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*Words used in this section headed “South African Exchange Control” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

*The information below is intended as a general guide to the position under the Exchange Control Regulations as at the date of the Programme Memorandum. The contents of this section headed “South African Exchange Control” do not constitute exchange control advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.*

### **Non-South African resident Noteholders and emigrants from the Common Monetary Area**

Dealings in the Notes and the performance by the Issuer of its obligations under the Notes and the Applicable Terms and Conditions may be subject to the Exchange Control Regulations.

#### **Blocked Rand**

Blocked Rand may be used for the subscription for or purchase of Notes. Any amounts payable by the Issuer in respect of the Notes subscribed for or purchased with Blocked Rand may not, in terms of the Exchange Control Regulations, be remitted out of South Africa or paid into any non-South African bank account.

#### **Emigrants from the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are emigrants from the Common Monetary Area will be endorsed “*emigrant*”. Such restrictively endorsed Certificates shall be deposited with an authorised foreign exchange dealer controlling such emigrant’s blocked assets.

In the event that a Beneficial Interest in Notes is held by an emigrant from the Common Monetary Area through the CSD, the securities account maintained for such emigrant by the relevant Participant will be designated as an “*emigrant*” account.

Any payments of interest and/or principal due to a Noteholder who is an emigrant from the Common Monetary Area will be deposited into such emigrant Noteholder’s Blocked Rand account, as maintained by an authorised foreign exchange dealer. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Exchange Control Regulations.

#### **Non-residents of the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are not resident in the Common Monetary Area will be endorsed “*non-resident*”. In the event that a Beneficial Interest in Notes is held by a non-resident of the Common Monetary Area through the CSD, the securities account maintained for such Noteholder by the relevant Participant will be designated as a “*non-resident*” account.

It will be incumbent on any such non-resident Noteholder to instruct the non-resident’s nominated or authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Notes are to be dealt with. Such funds may, in terms of the Exchange Control Regulations, be remitted abroad only if the relevant Notes are acquired with foreign currency introduced into South Africa and provided that the relevant Individual Certificate has been endorsed “*non-resident*” or the relevant securities account has been designated as a “*non-resident*” account, as the case may be.

#### **General**

The Issuer has not sought the approval of the Financial Surveillance Department the SARB on a general basis for the purpose of this Programme and will do so in respect of any particular issue to the extent such approval is required.

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## SETTLEMENT, CLEARING AND TRANSFER OF NOTES

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*Words used in this section headed “Settlement, Clearing and Transfer of Uncertificated Notes” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

### **Notes listed on the Interest Rate Market or the Main Board of the JSE and/or held in the CSD**

Each Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE in uncertificated form will be held in the CSD. A Tranche of unlisted Notes may also be held in the CSD.

#### ***Clearing systems***

Each Tranche of Notes listed on the Interest Rate Market or the Main Board of the JSE and issued in uncertificated form will be issued, cleared and settled in accordance with the JSE Listings Requirements of the JSE and the rules and operating procedures for the time being of the CSD through the electronic settlement system of the CSD. Such Notes will be cleared by Participants who will follow the electronic settlement procedures prescribed by the JSE and the CSD.

The CSD has, as the operator of an electronic clearing system, been appointed by the JSE to match, clear and facilitate the settlement of transactions concluded on the JSE. Subject as aforesaid, each Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE will be issued, cleared and transferred in accordance with the Applicable Procedures and the Terms and Conditions, and will be settled through Participants who will comply with the electronic settlement procedures prescribed by the JSE and the CSD. The Notes may be accepted for clearance through any additional clearing system as may be agreed between the JSE, the Issuer and the Dealer(s).

A Tranche of unlisted Notes may also be held in the CSD. With respect to Notes not listed on the Interest Rate Market or the Main Board of the JSE, the placement of such unlisted Notes may be reported through the JSE reporting system in order for the settlement of trades in such Tranche of Notes to take place in accordance with the electronic settlement procedures of the JSE and the CSD.

#### ***Participants***

The CSD maintains accounts only for Participants. The Participants are also approved settlement agents of the JSE. As at the date of the Programme Memorandum, the Participants which are approved by the JSE, in terms of the JSE Listings Requirements, as Settlement Agents to perform electronic settlement of funds and scrip are Absa Bank Limited, FirstRand Bank Limited, Nedbank Limited, The Standard Bank of South Africa Limited, Citibank N.A. - South Africa Branch, Standard Chartered Bank - Johannesburg Branch and the SARB. The Participants are in turn required to maintain securities accounts for their clients. The clients of Participants may include the holder of Beneficial Interests in the Notes, issued in uncertificated form, or their custodians. The clients of Participants, as the holders of the Beneficial Interests in the Notes or as custodians for such holders, may exercise their rights in respect of Notes held by them in the CSD only through the Participants. Euroclear, as operator of the Euroclear System, and Clearstream will settle off-shore transfers in the Notes through their Participants.

#### ***Settlement and clearing***

Participants will be responsible for the settlement of scrip and payment transfers through the CSD, the JSE and the SARB.

While a Tranche of Notes is held in the CSD, the CSD's Nominee, a wholly owned subsidiary of the CSD approved as a nominee for the purposes of the Financial Markets Act and any reference to “CSD's Nominee” shall, whenever the context permits, be deemed to include any successor nominee operating in terms of the Financial Markets Act will be named in the Register as the sole Noteholder of the Notes in that Tranche. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee for the holders of Beneficial Interests in such Notes.

In relation to each person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to the Nominal Amount of such Notes standing to the account of such person shall be *prima facie* proof of such Beneficial Interest. The CSD's Nominee (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

Payments of all amounts in respect of a Tranche of Notes held in uncertificated form, and registered in the name of the CSD's Nominee will be made to the CSD's Nominee, as the registered Noteholder of such Notes, which in turn will transfer such funds, *via* the Participants, to the holders of Beneficial Interests. Each of the persons reflected in the records of the CSD or the relevant Participant, as the case may be, as the holders of Beneficial Interests in Notes shall look solely to the CSD or the relevant Participant, as the case may be, for such person's share of each payment so made by (or on behalf of) the Issuer to, or for the order of, the CSD's Nominee, as the registered Noteholder of such Notes.

Payments of all amounts in respect of a Tranche of Notes which is listed on the Interest Rate Market or the Main Board of the JSE and/or held in the CSD under a Global Certificate will be recorded by the CSD's Nominee, as the registered Noteholder of such Notes, distinguishing between interest and principal, and such record of payments by the CSD's Nominee, as the registered Noteholder of such Notes, shall be *prima facie* proof of such payments.

#### ***Transfers and exchanges***

Title to Beneficial Interest held by clients of Participants indirectly through such Participants will pass on transfer thereof by electronic book entry in the securities accounts maintained by such Participants for such clients. Title to Beneficial Interests held by Participants directly through the CSD will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the CSD for such Participants. Beneficial Interests may be transferred only in accordance with the Applicable Procedures.

Beneficial Interests may be exchanged for Notes represented by Individual Certificates in accordance with Condition 14.2.

#### ***Records of payments, trust and voting***

Neither the Issuer nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, Beneficial Interests, or for maintaining, supervising or reviewing any records relating to Beneficial Interests. Neither the Issuer nor the Paying Agent nor the Agent will be bound to record any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Note may be subject. Holders of Beneficial Interests vote in accordance with the Applicable Procedures.

#### ***BESA Guarantee Fund Trust***

The holders of Notes that are not listed on the Interest Rate Market or the Main Board of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of the Notes listed on the Interest Rate Market or the Main Board of the JSE and can in no way relate to a default by the Issuer of its obligations under the Notes. Any claims against the BESA Guarantee Fund Trust may only be made in accordance with the rules of the BESA Guarantee Fund Trust.

#### ***Notes listed on any Financial Exchange other than (or in addition to) the Interest Rate Market or the Main Board of the JSE***

Each Tranche of Notes which is listed on any Financial Exchange other than (or in addition to) the Interest Rate Market or the Main Board of the JSE will be issued, cleared and settled in accordance with the rules and settlement procedures for the time being of that Financial Exchange. The settlement and redemption procedures for a Tranche of Notes which is listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.

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## GENERAL INFORMATION

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Words used in this section headed “General Information” shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.

### Authorisation

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of South Africa as at the date of this Programme Memorandum have been given for the establishment of the Programme and the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Memorandum and the Notes.

### Listing

This Programme Memorandum was approved by the JSE on 30 May 2014. Notes to be issued under the Programme, if they are to be listed, will be listed on the Interest Rate Market or the Main Board of the JSE or any other Financial Exchange.

### Documents Available for Inspection

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer as set out at the end of this Programme Memorandum:

- (a) this Programme Memorandum;
- (b) all amendments and supplements to this Programme Memorandum prepared by the Issuer from time to time;
- (c) in respect of any issue of Notes under the Programme, the audited annual financial statements (together with reports and notes thereto) of the Issuer, for its three financial years prior to the date of such issue, and the audited annual financial statements (together with reports and notes thereto) of the Issuer for all financial years post the date of such issue as and when such statements become available;
- (d) in respect of any issue of Notes under the Programme, the most recently published consolidated audited financial statements and notes and reports thereto of ABIL, the holding company of the Issuer to be read with such financial statements of the Issuer referred to above;
- (e) each Applicable Pricing Supplement relating to any Tranche of Notes issued under the Programme, listed on the Interest Rate Market or the Main Board of the JSE (and in respect to which there is an outstanding Nominal Amount); and
- (f) all information and documents incorporated into this Programme Memorandum by reference under the section headed “*Documents Incorporated by Reference*”.

### Material Change

Save as disclosed in the sections headed “*Capitalisation and Indebtedness*” commencing on page 53 and “*Description of African Bank Limited*” commencing on page 63, and after due and careful enquiry, the Issuer hereby confirms that, as at the Programme Date there has been no material change in the financial or trading position of the Issuer since the date of the Issuer’s recently published unaudited interim financial statements as at and for the six months ended on 31 March 2014 as read with the most recently published audited financial statements of the Issuer for the year ended 30 September 2013. This statement has not been confirmed nor verified by the auditors of the Issuer.

### Litigation

Save as disclosed in the section of this Programme Memorandum headed “*Description of African Bank Limited – Legal And Regulatory Proceedings*” commencing on page 76, the Issuer is not or has not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had a significant effect on the financial position of the Issuer.

**Auditors**

Deloitte & Touche has acted as the auditors of the financial statements of the Issuer for the financial years ended 30 September 2003, 30 September 2004, 30 September 2005, 30 September 2006, 30 September 2007, 30 September 2008, 30 September 2009, 30 September 2010, 30 September 2011, 30 September 2012 and 30 September 2013 and has in respect of those years, issued an unqualified audit report.

**Governing Law**

The Notes will be governed by and construed in accordance with the laws of South Africa from time to time.

**PROVISIONS FOR MEETINGS OF NOTEHOLDERS**

**(extracted from the Agency Agreement and adapted, where necessary, to utilise the definitions contained in the Terms and Conditions of this Programme Memorandum)**

1.
  - (a) A Noteholder may by an instrument in writing (a “form of proxy”) signed by the Noteholder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation, appoint any person (a “proxy” or “proxies”) to act on his or its behalf in connection with any meeting or proposed meeting of the Noteholders.
  - (b) Any Noteholder which is a corporation may by resolution of its directors or other governing body authorise any person to act as its representative (a “representative”) in connection with any meeting or proposed meeting of the Noteholders.
  - (c) Any proxy appointed pursuant to subparagraph (a) or representative appointed pursuant to subparagraph (b) shall, so long as the appointment remains in force, be deemed for all purposes in connection with any meeting or proposed meeting of the Noteholders specified in the appointment, to be the holder of the Notes to which the appointment relates and the actual beneficial holder of the Notes shall be deemed for such purposes not to be the Noteholder.
2. The proxies and representatives need not be Noteholders.
3. Each form of proxy (or certified copy thereof) shall be deposited at such place as the Agent shall approve not less than 24 hours before the time appointed for holding the meeting or adjourned meeting at which the proxies named in the form of proxy propose to vote and the form of proxy shall not be treated as valid unless the Chairman of the meeting decides otherwise before such meeting or adjourned meeting proceeds to business. The Agent shall not thereby be obliged to investigate or be concerned with the validity of or the authority of the proxies named in any such form of proxy.
4. Any vote given in accordance with the terms of a proxy shall be valid notwithstanding the previous revocation or amendment of the form of proxy or of any of the Noteholders’ instructions pursuant to which it was executed PROVIDED THAT no intimation in writing of such revocation or amendment shall have been received by the Agent or the Issuer at its specified office (or such other place as may have been approved by the Agent for the purpose) by the time being 24 hours before the time appointed for holding the meeting or adjourned meeting at which the form of proxy is to be used.
5. The Issuer may at any time and, upon a requisition in writing of Noteholders holding not less than 20 per cent in Nominal Amount of the Notes for the time being Outstanding, shall convene a meeting of the Noteholders and if the Issuer defaults for a period of 7 days in convening such a meeting the same may be convened by the requisitionists. Whenever the Issuer or the Noteholders, as the case may be, is/are about to convene any such meeting it/they shall forthwith give notice in writing to the Agent, the Arranger and the Dealers of the day, time and place thereof and of the nature of the business to be transacted thereat. Every such meeting shall be held at such time and place as the Agent may approve.
6. At least 21 days’ notice (exclusive of the day on which the notice is given and the day on which the meeting is held) specifying the place, day and hour of meeting shall be given to the Noteholders (and the Issuer, if the meeting is convened by the Noteholders) prior to any meeting of the Noteholders in the manner provided by Condition 16. Such notice shall state generally the nature of the business to be transacted at the meeting thereby convened but (except for an Extraordinary Resolution) it shall not be necessary to specify in such notice the terms of any resolution to be proposed. Such notice shall include a statement to the effect that proxy forms may be deposited with the Agent for the purpose of appointing proxies not less than 24 hours before the time fixed for the meeting.
7. Some person (who may need not be a Noteholder) nominated in writing by the Issuer shall be entitled to take the chair at every such meeting but if no such nomination is made, or if at any meeting the person

nominated is not present within fifteen minutes after the time appointed for holding the meeting, the Noteholders present shall choose one of their number to be Chairman.

8. At any such meeting one or more Noteholders present or represented by proxies or representatives and holding or representing in the aggregate not less than one third in Nominal Amount of the Notes for the time being Outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more Noteholders present or represented by proxies or representatives and holding or representing in the aggregate a clear majority in Nominal Amount of the Notes for the time being Outstanding PROVIDED THAT at any meeting the business of which includes any of the following matters, if proposed by the Issuer, (each of which shall only be capable of being effected after having been approved by Extraordinary Resolution) namely:
  - 8.1. modification of the Maturity Date of any Notes or reduction or cancellation of the Nominal Amount payable upon maturity or earlier redemption or repayment or variation of the method of calculating the amount payable upon maturity or earlier redemption or repayment; or
  - 8.2. reduction or cancellation of the amount payable or modification of the payment date in respect of any interest in respect of the Notes or variation of the method of calculating the Rate of Interest in respect of the Notes; or
  - 8.3. reduction of any Minimum Rate of Interest and/or Maximum Rate of Interest specified in the Applicable Pricing Supplement of any Note; or
  - 8.4. modification of the currency in which payments under the Notes are to be made; or
  - 8.5. modification of the majority required to pass an Extraordinary Resolution; or
  - 8.6. the sanctioning of any such scheme or proposal as is described in paragraph 20.7 below; or
  - 8.7. alteration of this proviso or the proviso to paragraph 9 below;the quorum shall be one or more Noteholders present or represented by proxies or representatives and holding or representing in the aggregate not less than two thirds in Nominal Amount of the Notes for the time being Outstanding. An Extraordinary Resolution passed at any meeting of the holders of Notes will be binding on all holders of Notes, whether or not they are present at the meeting.
9. If within fifteen minutes after the time appointed for any such meeting a quorum is not present the meeting shall if convened upon the requisition of Noteholders be dissolved. In any other case it shall stand adjourned to the same day in the next week (or if such day is a public holiday the next succeeding Business Day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall stand adjourned for such period being not less than 14 days nor more than 42 days, and at such place as may be appointed by the Chairman and approved by the Agent) and at such adjourned meeting one or more Noteholders present or represented by proxies or representatives (whatever the Nominal Amount of the Notes so held or represented by them) shall (subject as provided below) form a quorum and shall (subject as provided below) have power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been dealt with at the original meeting had the requisite quorum been present PROVIDED THAT at any adjourned meeting the business of which includes any of the matters specified in the proviso to paragraph 8 above, the quorum shall be one or more Noteholders present or represented by proxy or representatives and holding or representing in the aggregate not less than one third in Nominal Amount of the Notes for the time being Outstanding.
10. Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if 14 were substituted for 21 in paragraph 6 above and such notice shall (except in cases where the proviso to paragraph 9 above shall apply when it shall state the relevant quorum) state that one or more Noteholders present or represented by proxies or representatives at the adjourned meeting whatever the Nominal Amount of the Notes held or represented by them will form a quorum.
11. Except where otherwise provided, every resolution proposed to be passed at a meeting shall be decided in the first instance by a show of hands and in case of equality of votes the Chairman shall both on a show of hands and on a poll as contemplated in paragraph 13 below have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Noteholder or as a proxy or as a representative.

12. At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman, the Issuer or by one or more Noteholders present or represented by proxies or representatives (whatever the Nominal Amount of the Notes so held by them), a declaration by the Chairman that a resolution has been carried or carried by a particular majority or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
13. Subject to paragraph 15 below, if at any such meeting a poll is so demanded it shall be taken in such manner and subject as hereinafter provided either at once or after an adjournment as the Chairman directs and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.
14. The Chairman may with the consent of (and shall if directed by) any such meeting adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully (but for the lack of required quorum) have been transacted at the meeting from which the adjournment took place.
15. Any poll demanded at any such meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.
16. Any officer or director of the Issuer, and/or their nominated representative and/or their lawyers and the Agent may attend and speak at any meeting. Save as aforesaid, but without prejudice to the proviso to the definition of "Outstanding" (repeated in paragraph 25 below), no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the Noteholders or join with others in requisitioning the convening of such a meeting unless he either produces proof acceptable to the Issuer that he is the Noteholder or is a proxy or a representative. The Issuer shall not be entitled to vote at any meeting in respect of Notes held by it for the benefit of any person and no other person shall be entitled to vote at any meeting in respect of Notes held by it for the benefit of any other person unless duly authorised as contemplated herein. Nothing herein contained shall prevent any of the proxies named in any form of proxy or any representative from being a director, an officer or representative of or otherwise connected with the Issuer.
17. Save as provided in paragraph 11 hereof at any meeting, on a show of hands or pursuant to a poll, every Noteholder who is present in person and produces proof acceptable to the Issuer that he is the Noteholder or is a proxy or a representative shall have one vote per ZAR1 000 000's worth of Notes (or the nearest rounded off multiple thereof) which he holds or which the person which he represents or for whom he acts as proxy, holds.
18. Notwithstanding any other provision contained in this Schedule, the holder of a Global Note (whether in certificated or uncertificated form) shall vote on behalf of holders of Beneficial Interests on any resolution proposed to be passed at a meeting, in accordance with the Applicable Procedures.
19. Without prejudice to the obligations of the proxies or representatives any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.
20. A meeting of the Noteholders shall in addition to the powers hereinbefore given have the following powers exercisable by Extraordinary Resolution only (subject to the provisions relating to quorum contained in paragraphs 8 and 9 above and subject to the provisos of any applicable statute), namely:
  - 20.1. power to sanction any compromise or arrangement proposed to be made between the Issuer and the Noteholders or any of them;
  - 20.2. power to approve the substitution of any entity for the Issuer which shall be proposed by the Issuer;
  - 20.3. power to sanction any abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders against the Issuer or against any of its property whether such rights shall arise under the Agency Agreement, the Notes or otherwise;
  - 20.4. power to assent to any modification of the provisions contained in this Agency Agreement or the Terms and Conditions or the Notes which shall be proposed by the Issuer;
  - 20.5. power to give any authority or sanction which under the provisions of this Agency Agreement or the Notes is required to be given by Extraordinary Resolution;

- 20.6. power to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon such committee or committees any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- 20.7. power to sanction any scheme or proposal for the exchange or sale of the Notes for, or the conversion of the Notes into or the cancellation of the Notes in consideration of, shares, stocks, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any entity (corporate or otherwise) formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration for cash.
21. Any resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions hereof shall be binding upon all the Noteholders whether present or not present at such meeting and whether or not voting, and all the Noteholders shall be bound to give effect thereto accordingly and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof. Notice of the result of the voting on any resolution duly considered by the Noteholders shall be published in accordance with Condition 16 of the Terms and Conditions by the Issuer within 14 days of such result being known PROVIDED THAT the non-publication of such notice shall not invalidate such resolution.
22. A majority, upon a show of hands or if a poll be duly demanded then by a majority consisting of the votes given on such poll, shall be required to ordinarily pass a resolution of Noteholders
23. The expression “Extraordinary Resolution” when used in the Agency Agreement means a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions herein contained by a majority consisting of not less than two-thirds of the persons voting thereat upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than two-thirds of the votes given on such poll.
24. Minutes of all resolutions and proceedings at every such meeting as aforesaid shall be made and duly entered in books to be from time to time provided for that purpose by the Issuer and any such minutes as aforesaid if purporting to be signed by the Chairman of the meeting at which such resolutions were passed or proceedings had shall be conclusive evidence of the matters therein contained and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings had thereat to have been duly passed or had.
25. The expression “Outstanding” when used in the Agency Agreement means, in relation to the Notes, all the Notes issued other than:
- 25.1. those which have been redeemed in full in accordance with the Agency Agreement or the Terms and Conditions;
- 25.2. those in respect of which the date for redemption in accordance with the Terms and Conditions has occurred and all sums due in respect of such Notes (including all accrued interest) have been received by the Paying Agent as provided in the Agency Agreement and remain available for payment against presentation and surrender of such Notes;
- 25.3. those which have become void under Condition 10;
- 25.4. those which have been purchased and cancelled as provided in Condition 8;
- 25.5. those mutilated or defaced Notes which have been surrendered in exchange for replacement Notes pursuant to Condition 12;
- 25.6. Notes represented by Global Notes to the extent that they shall have been duly exchange for Individual Certificates;
- provided that for each of the following purposes, namely:
- 25.7. the right to attend and vote at any meeting of the Noteholders; and
- 25.8. the determination of how many and which Notes are for the time being Outstanding for the purposes of this Appendix;
- those Notes (if any) which are for the time being held by any person (including but not limited to the Issuer or any of its respective subsidiaries) for the benefit of the Issuer or any of its respective subsidiaries shall (unless and until ceasing to be so held) be deemed not to be Outstanding.

**ISSUER**

**African Bank Limited**

59, 16<sup>th</sup> Road  
Midrand, 1685  
South Africa

*Contact: Mr G. Jones*

**COMPANY SECRETARY OF THE ISSUER**

**Leeanne Goliath**

*Registered office:*

59, 16<sup>th</sup> Road  
Midrand, 1685  
South Africa

**ARRANGER, DEBT SPONSOR**

**FirstRand Bank Limited,**

**acting through its Rand Merchant Bank division**

4 Merchant Place  
Cnr Rivonia Road and Fredman Drive  
Sandton, 2196  
South Africa

*Contact: Mr. B. Martin*

**LEGAL ADVISERS TO THE ISSUER**

**Prinsloo, Tindle & Andropoulos Inc**

1<sup>st</sup> Floor, 17 Fricker Road  
Illovo Boulevard  
Illovo  
South Africa

*Contact: Ms M Black*

**AUDITORS TO ISSUER**

**Deloitte & Touche**

The Woodlands  
Woodlands Drive  
Woodmead  
Sandton, 2196

*Contact: Mr Mgcinisihlalo Jordan*

**DEALERS**

**FirstRand Bank Limited,  
acting through its Rand Merchant Bank  
division**

4 Merchant Place  
Cnr Rivonia Road and Fredman Drive  
Sandton, 2196  
South Africa

*Contact: Mr. B. Martin*

**Deutsche Bank AG,  
Johannesburg Branch**

3 Exchange Square  
85 Maude Street  
Sandton, 2196  
South Africa

*Contact: Ms N Hossain*

**ABSA Bank Limited,  
acting through its division  
ABSA Corporate and Merchant Bank**

3<sup>rd</sup> Floor  
ABSA Towers East  
170 Main Street  
Johannesburg, 2001  
South Africa

*Contact: Ms P Nana*

**Nedbank Limited  
acting through its division, Nedbank Capital**

135 Rivonia Road  
Sandown  
Sandton, 2196  
South Africa

*Contact: Mr J Hall*

**The Standard Bank of South Africa Limited**

7<sup>th</sup> Floor

Standard Bank Centre

3 Simmonds Street

Johannesburg, 2001

South Africa

*Contact: Mr A Costa*

**AGENT**

**Link Market Services South Africa**

**(Proprietary) Limited**

19 Ameshoff Street

13<sup>th</sup> Floor, Rennie House

Braamfontein

Johannesburg, 2001

South Africa

*Contact: Mr I Haniff*

**PAYING AND CALCULATION AGENT**

**African Bank Limited**

59, 16<sup>th</sup> Road

Midrand, 1685

South Africa

*Contact: Mr G. Jones*

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