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Confirmation of Your Representation: By accessing the Base Prospectus you are deemed to have agreed with K2014176899 (SOUTH AFRICA) LIMITED (the “**Issuer**” or, as referred to in the Annexure to this Base Prospectus, “**Good Bank**”) that (i) you have understood and agree to the terms set out herein, (ii) you are not a U.S. person (within the meaning of Regulation S of the United States Securities Act 1933, as amended (the “**Securities Act**”)), and are not acting for the account or benefit of any U.S. person, and that the electronic mail address you have given to us is not located in the United States, its territories and possessions, (iii) you consent to delivery by electronic transmission, (iv) you will not transmit the Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable securities laws of other jurisdictions.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY NOTES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, SUBJECT TO CERTAIN EXCEPTIONS, IN THE UNITED STATES OR TO U.S. PERSONS.

THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of the Base Prospectus is only being made to those persons falling within Article 19(5) or Article 49(2)(a) to (e) of the Financial Services and Markets Act 2000 (Financial Promotion)

Order 2005, or to other persons to whom this Base Prospectus may otherwise be distributed without contravention of section 21 of the Financial Services and Markets Act 2000, or any person to whom it may otherwise lawfully be made. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, any director, officer, employee or agent of the Issuer or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer.

K2014176899 (SOUTH AFRICA) LIMITED

(Registration number: 2014/176899/06)

(incorporated with limited liability in the Republic of South Africa)

To change its name to **AFRICAN BANK LIMITED** (Registration Number 2014/176899/06) by the date any Notes are issued hereunder

U.S.\$6,000,000,000

Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Base Prospectus (the “**Programme**”), K2014176899 (SOUTH AFRICA) LIMITED (registration number 2014/176899/06) (the “**Issuer**” or, as referred to in the Annexure to this Base Prospectus, “**Good Bank**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the “**Notes**”, which expression shall include (i) Senior Notes and/or (ii) Notes which are subordinated and with terms capable of qualifying such Notes as Tier 2 Capital (“**Tier 2 Notes**”), each as defined under the section of this Base Prospectus headed “*Terms and Conditions of the Notes*” (the “**Terms and Conditions**”). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$ 6,000,000,000 (or its equivalent in other currencies).

This Base Prospectus has been approved by the Financial Conduct Authority (the “**FCA**”) in its capacity as competent authority for the purposes of the Prospectus Directive (as defined herein) and relevant implementing measures in the United Kingdom (the “**UK Listing Authority**”) as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purposes of giving information with regard to the issue of the Notes described in this Base Prospectus for the period of 12 months from the date of this Base Prospectus. Application has been made for such Notes to be admitted to the official list (the “**Official List**”) of the FCA and to the London Stock Exchange plc (the “**London Stock Exchange**”) and for such Notes to be admitted to trading on the London Stock Exchange’s regulated market (the “**Market**”). References in this Base Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments (the “**Markets in Financial Instruments Directive**”). The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by a competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. The relevant final terms (the “**Final Terms**”) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange or quotation system). In the case of PD Exempt Instruments (as defined below) references to the Final Terms contained in this Base Prospectus shall be construed as references to the pricing supplement contained in this Base Prospectus (the “**Pricing Supplement**”).

References in this Base Prospectus to “**PD Exempt Instruments**” are to instruments for which no prospectus is required to be published under the Prospectus Directive (as defined herein). For the purposes of any PD Exempt Instruments issued pursuant to this Programme, this document does not constitute a base prospectus within the meaning of Article 2.1 of the Prospectus Directive and will not constitute listing particulars. Information contained in this Base Prospectus regarding PD Exempt Instruments and any pricing supplement documents relating thereto shall not be deemed to form part of this Base Prospectus and the UK Listing Authority has neither approved nor reviewed information contained in this Base Prospectus in connection with the offering and sale of PD Exempt Instruments or in the related pricing supplement documents to which the PD Exempt Instruments are subject.

The Notes are of a speculative nature and investing in them involves substantial risks. Prior to any decision to invest in the Notes, prospective investors should have regard to the risks described under “**Risk Factors**” in this Base Prospectus and should seek independent professional advice.

The Notes of each tranche (each, a “**Tranche**”) issued in bearer form (“**Bearer Notes**”) will initially be represented by a temporary global note in bearer form, without interest coupons (each a “**Temporary Global Note**”), and will be sold in “offshore transactions” within the meaning of Regulation S (“**Regulation S**”) under the United States Securities Act 1933, as amended (the “**Securities Act**”). Interests in Temporary Global Notes will be exchangeable for interests in permanent global notes (each a “**Permanent Global Note**”) and, together with the Temporary Global Notes, the “**Global Notes**”), or if so stated in the relevant Final Terms, definitive Notes (the “**Definitive Notes**”), after the date falling 40 days after the completion of the distribution of the relevant Tranche of Notes upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part in the limited circumstances described under “*Summary of Provisions Relating to the Notes While in Global Form*”. Global Notes may be deposited on the issue date with a common depositary (the “**Common Depositary**”) on behalf of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) or such other clearing systems as shall be determined by the Issuer. Bearer Notes are subject to U.S. tax law requirements.

The Notes of each Tranche issued in registered form (“**Registered Notes**”) will be sold in “offshore transactions” within the meaning of Regulation S and will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Tranche and may be represented by a permanent registered global certificate (each, a “**Global Certificate**”) without interest coupons and Certificates may, and Global Certificates will, be deposited on the relevant issue date either with (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, a Common Depositary or (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, or delivered outside a clearing system, as determined by the Issuer. The provisions governing the exchange of interests in the Global Certificates for individual Certificates in certain limited circumstances are described in “*Summary of Provisions relating to the Notes while in Global Form*”.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (the “**EEA**”) or offered to the public in a Member State of the EEA in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum specified denomination (each a “**Specified Denomination**”) shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

In the case of any Notes offered to prospective investors in the Republic of South Africa (“**South Africa**”), other than investors contemplated in section 96(1)(a) of the South African Companies Act 2008, as amended (the “**Companies Act**”) or an identified investor or identified investors who do not constitute the public or a section of the public as contemplated in the Companies Act, or in terms of an offer made pursuant to another exemption contemplated in section 96(1) of the Companies Act, the Specified Denomination shall not be less than R1,000,000 (or its equivalent in any other currency as at the date of the issue of the relevant Notes) for a single addressee acting as principal or such higher amount as may be prescribed from time to time in accordance with the procedures of the Companies Act.

Residents of South Africa and their off-shore Subsidiaries are restricted from subscribing for or purchasing Notes. For further details on these restrictions, see “*Exchange Controls*”.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered, sold, pledged or otherwise transferred in the United States or to U.S. persons. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Base Prospectus, see “*Subscription and Sale*”.

As described further in this Base Prospectus, the prior written approval, for exchange control purposes, of the Financial Surveillance Department (“**FinSurv**”) of the South African Reserve Bank (the “**SARB**”) is required for the issue of Notes issued under this Programme. In addition, in respect of an issue of Tier 2 Notes, the prior approval of the Registrar of Banks in South Africa (the “**Registrar of Banks**”) is required. The approval of the Registrar of Banks is not required for the issue of Senior Notes as at the date of this Base Prospectus.

The Issuer has received a preliminary global scale foreign currency long-term issuer rating of B+ prelim, a preliminary rating of B+ prelim in respect of the Programme and a preliminary rating of B+ prelim in respect of Senior Notes to be issued under the Programme from Standard & Poor’s Rating Service Europe Limited (“**S&P**”). S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (the “**CRA Regulation**”). The Issuer may, at any time, obtain a final rating for itself, this Programme or any issue of Notes pursuant to this Programme. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Issuer, the Programme or the Senior Notes to be issued under the Programme. A security 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. Where Notes to be issued under the Programme are to be rated, the applicable rating(s) will be specified in the relevant Final Terms.

The date of this Base Prospectus is 29 March 2016

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

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

This Base Prospectus should be read and construed with any amendment or supplement hereto and with any other documents incorporated herein by reference (see “*Documents Incorporated by Reference*” below). Further, in relation to any Series of Notes, this Base Prospectus should be read and construed together with the relevant Final Terms.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale, or delivery of any Note shall, under any circumstances, create any implication that the information contained in this Base Prospectus is accurate subsequent to the date hereof or that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale or delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer to inform themselves about and to observe any such restriction. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Base Prospectus and any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*”. In particular, the Notes have not been and will not be registered under the Securities Act and Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold or, in the case of Bearer Notes, delivered within the United States or to U.S. persons. Notes may be offered and sold outside the United States in reliance on Regulation S.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer to subscribe for, or purchase, any Notes. Neither this Base Prospectus nor any Final Terms nor any financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of this Base Prospectus or any Final Terms or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms and its purchase of Notes should be based upon such investigation as it deems necessary. **In connection with the issue of any Tranche of Notes, the manager or managers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant**

Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Except to the extent expressly provided in any offer documentation pertaining to the relevant Notes, this Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States in compliance with Regulation S under the Securities Act and the admission of the Notes to the Official List and to trading on the Market. The Issuer reserves the right to reject any offer to purchase the Notes, in whole or in part, for any reason. Except to the extent expressly provided in any offer documentation pertaining to the relevant Notes, this Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person. Except to the extent expressly provided in any offer documentation pertaining to the relevant Notes, distribution of this Base Prospectus by any non-U.S. person outside the United States or to any other person within the United States, other than those persons, if any, retained to advise such non-U.S. person, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than those persons, if any, retained to advise such non-U.S. person is prohibited.

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 relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus 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 relevant Notes and the impact such 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 relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the investor's currency;
- understand thoroughly the terms of the relevant 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 and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, 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 the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

In this Base Prospectus, unless otherwise specified, references to a **"Member State"** are references to a Member State of the European Economic Area, references to **"South Africa"** are references to the Republic of South Africa, references to **"U.S.\$"**, **"U.S. dollars"** or **"dollars"** are to United States dollars, references to **"euro"**, **"€"** and **"EUR"** are to the single currency introduced at the start of the third stage of European Economic and

Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to “**ZAR**”, “**R**” or “**Rand**” are to South African rand, references to “**£**” and “**sterling**” are to the lawful currency of the United Kingdom, references to “**SFr**”, “**Swiss Franc**” and “**CHF**” are to the lawful currency of Switzerland and references to “**Renminbi**”, “**CNH**” and “**RMB**” are to the lawful currency of the People's Republic of China excluding Taiwan and Hong Kong and the Macau Special Administrative Region (“**PRC**”).

References to Final Terms in this Prospectus includes references to the Pricing Supplement (which is applicable in respect of PD Exempt Instruments only), where appropriate.

NOTICE TO SOUTH AFRICAN INVESTORS

The Notes may not be and, accordingly, are not being offered or sold to the public in South Africa. Accordingly, any offer of Notes is not intended to be an “offer to the public” as defined in section 95(l)(h) of the Companies Act and this Base Prospectus 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 for a single addressee acting as principal 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 such offer is made to certain investors contemplated in section 96(1)(a) of the Companies Act, or pursuant to another exemption contemplated in section 96(1) of the SA Companies Act, or made in an issuance to an identified investor or to identified investors who do not constitute the public or a section of the public as contemplated in the Companies Act.

No South African residents or other offshore subsidiary may subscribe for or purchase any of the Notes or beneficially own or hold any of the Notes unless such subscription, purchase or beneficial holding or ownership is otherwise permitted under the South African Exchange Control Regulations, 1961 promulgated pursuant to the Currency and Exchanges Act, 1933 (the “**Exchange Control Regulations**”) or the rulings promulgated thereunder or specific approval has been obtained from the FinSurv of SARB. Notes will not be advertised to, or offers for subscription or sale solicited from, investors in South Africa. For further details on these restrictions, see “*Exchange Controls*”.

NOTICE TO UK INVESTORS

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) persons falling within Article 49(2)(a) to (e) (“high net worth companies, unincorporated associations, etc.”) of the Order (all such persons together being referred to as “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire such Notes will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Base Prospectus or any of its contents.

NOTICE TO EEA INVESTORS

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are

the subject of an offering contemplated in this Base Prospectus as completed by the Final Terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, the Issuer has not authorised, nor does it authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer to publish or supplement a prospectus for such offer. Unless otherwise specified, references in this Base Prospectus to the “**Prospectus Directive**” mean Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and include any relevant implementing measure in the Relevant Member State.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been approved by the FCA (or its predecessor, the Financial Services Authority) or filed with it, shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- (1) The audited financial statements of African Bank as at, and for the year ended, 30 September 2015, together with the Curator's report and the audit report thereon and certain related information, comprising the following:

Audited Annual Financial Statements for the year ended 30 September 2015

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- (2) The audited financial statements of African Bank as at, and for the year ended, 30 September 2014, together with the Curator's report and the audit report thereon and certain related information, comprising the following:

Audited Annual Financial Statements for the year ended 30 September 2014

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save that any statement contained in this Base Prospectus or in any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. Any documents and/or information themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of the Base Prospectus. Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus will be available for viewing on (i) www.africanbank.co.za or <https://www.africanbank.co.za/about-us/investors> and (ii) the website of the Regulatory News Service operated by the London Stock Exchange plc at www.londonstockexchange.com/exchange/news/market-news-home.html.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should carefully read and review this entire Base Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set out below, before making a decision to invest.

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.

This Base Prospectus contains forward-looking statements that involve risks and uncertainties. The Issuer's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including but not limited to the risks described below and elsewhere in this Base Prospectus. See "Cautionary Note Regarding Forward-Looking Statements".

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

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

Risks related to the Restructuring and the Issuer's strategy

The Issuer may fail to implement the practical aspects of the Restructuring.

As part of the Curatorship of African Bank announced on 10 August 2014 by the then Governor of SARB, Ms Gill Marcus, the Issuer was created in order to acquire the Good Bank Business of African Bank. See "Description of the Issuer—History and Overview".

The rescue plan announced as part of the Curatorship was unprecedented in the South African banking industry and necessitated highly complex implementation steps, not least due to:

- (a) the establishment of the Issuer as a new entity independent of ABIL and its shareholders, with the Consortium as its ultimate shareholders, to acquire the Good Bank and the bulk of the operational assets of African Bank, including its fixed assets, immovable property, assets arising in terms of the Hedging Arrangements, operational contracts, intellectual property, certain intangible assets and the Top-Up Cash Amount, together with its business and operational functions, employees and systems (including information technology ("IT") systems) and to receive new capital as described in the section headed "Description of the Issuer – Equity and Capital in the Issuer" relating to the ZAR10 billion capitalisation of the Issuer by the Consortium;
- (b) the necessity to acquire from inception all regulatory, other legislative and corporate approvals, licences, authorisations and registrations required by the Issuer to conduct its business as a bank;
- (c) the establishment of a new board of directors of the Issuer entirely separate from the board of directors of African Bank at the date of Curatorship, including the necessity to fill key management positions

within the Issuer including, but not limited to, the positions of chief executive officer and chief financial officer;

- (d) the requirement to restructure the claims of African Bank's senior creditors (other than retail depositors) and the subordinated funders through the Exchange Offers as well as the necessity to establish new funding programmes by the Issuer such as the Programme and the DMTN Programme and, to the extent commercially viable, appropriately hedge foreign currency and floating interest rate exposure under the new debt instruments; and
- (e) the separation of the Good Book from the Residual Book for the purposes of the transfer and the practical implications of the transfer of the operational functions, employees and systems (including loan origination, loan administration, collection and accounting systems) from African Bank to the Issuer.

The challenges posed by the implementation of the Restructuring, including those described above, have been unprecedented for the Issuer or African Bank management and in South Africa in general. Although many of the steps described above have been implemented as of the date of this Base Prospectus or will be implemented shortly thereafter, the practical challenges of establishing the operations of the Issuer, including with respect to the transfer of the operational functions, employees and systems and successfully managing the Residual Book, remain. Any adverse effects resulting from a failure to properly manage the practical aspects of the Restructuring on the implementation of the Issuer's strategy could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer may fail to develop and implement an appropriate medium to long-term business strategy.

The short-term business strategy of the Issuer is based on the lending policies and strategies put in place at African Bank for the purposes of the Curatorship and is focused on the implementation steps of the Restructuring.

A comprehensive medium to long-term strategy for the Issuer is being developed by the management and new board of directors of the Issuer. Areas of focus in this strategy will include diversification of business lines, channels and product and asset portfolios in order to improve revenue and reduce costs. The implementation of such strategy will need to take into consideration all statutory and business capital requirements, liquidity provisions, and the nature of the assets and the underlying trends in the value of such assets, in a manner that does not negatively impact on the Issuer's brand, reputation, customer satisfaction or its relationship with, and ability to retain, its employees and/or its relationship with any of its other stakeholders. The implementation of the Issuer's strategy will also need to take into account the changes in business environment of the Issuer since the Curatorship, including its market position, reputation and changes in its operations.

As a result, the successful development and implementation of the Issuer's strategy will require difficult, subjective and complex judgements, including projections of economic conditions. Furthermore, the successful implementation of the Issuer's strategy is contingent upon a range of factors, many of which are beyond the Issuer's control, including market conditions, the general business environment, the legal and regulatory environment (including all currently unexpected regulatory changes), the activities of its competitors and consumers (including in relation to any changes in the social and socio-economic environment) and the political environment.

There can be no assurance that the Issuer will be able to successfully implement all or part of its strategy or implement it when expected or targeted. The Issuer may also experience unexpected costs or cost increases and other execution problems in implementing its strategy. For example, the likely implementation of significant cost reductions may have a negative impact on the Issuer's brand and levels of customer satisfaction which may, in turn, result in customer attrition. Any steps that the Issuer may take to

progressively improve its IT systems may also result in a loss of interoperability and compatibility between the systems used by the Residual Bank and the systems used by the Issuer, which may, in turn, adversely affect risk monitoring or collections. In addition, the implementation of the Restructuring, and, in particular, managing the Residual Book, will impose significant time demands on the Issuer's senior management, and there is a risk that, as a result, the successful development and implementation of the Issuer's strategy and the management of the Good Book could be adversely affected. Risks may also emerge from the separation of the Good Book from the Residual Book, such as a worse-than-anticipated performance of the loan portfolio selected to be part of the Good Book. Further, there can be no assurance that the Issuer will be able to achieve its capital, financial or operational targets (including, for example, its targets for return on equity, cost-to-income ratio, and Common Equity Tier 1 Capital), reduce costs as contemplated by the Restructuring or otherwise realise all or part of the benefits that it expects from its current plans or other future initiatives. A failure or delay in implementing the Issuer's strategy may adversely affect the Issuer's business, financial condition, results of operations and prospects.

The Issuer's reputation and competitive position have been adversely affected by the Curatorship and the prolonged implementation of the Restructuring.

Negative publicity in South Africa as a result of the Curatorship, African Bank's various credit downgrades, disappointing financial results and the need for restatements of previously released financial statements has damaged African Bank's reputation and consequently the Issuer's reputation. The prolonged implementation of the Restructuring has also eroded African Bank's competitive position in the South African market, with African Bank's competitors able to attract new customers in the business segments that have been the traditional focus of African Bank's activities. There can be no assurance that the Issuer will be able to address the damage to its reputation and competitive position upon completion of the Restructuring, and any continued deterioration of the Issuer's reputation or competitive position could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects. See also "*—The Issuer faces significant competition, which may increase in the future and have an adverse impact on its business*" and "*—Reputational damage could cause harm to the Issuer and its business prospects*".

Challenges by creditors through litigation related to the Restructuring could have a material adverse effect on the Issuer.

Previous liability management exercises and restructurings by other institutions have demonstrated that creditors may seek to bring claims or institute litigation in court to challenge aspects of those liability management exercises and restructurings, and there can be no assurance the Restructuring will not be subject to such challenges. Although no claims have been brought by creditors as of the date of this Prospectus, it is possible that claims challenging the legality of the Restructuring, or certain aspects of it, could be brought even after the Restructuring has been implemented and the Transaction Effective Date has occurred. In addition, African Bank and/or the Issuer may be subject to litigation related to African Bank's restatements to its financial statements for the years ended 30 September 2013 and 2012 (which restatements also impacted prior periods to some degree), particularly with respect to African Bank's historical impairment policy. See "*—The Issuer's financial information included in this Base Prospectus has been prepared on a pro forma and forecast basis and may not be an accurate indication of its financial performance*".

The success of these claims, or any other creditor claims, could result in all or part of the Restructuring being declared to be unlawful and invalid retrospectively. Any one or more of such proceedings could also expose the Issuer to a monetary claim (for example, if the Restructuring is set aside, creditors could claim that any funds received by the Issuer flowing from the Restructuring should be repaid to African Bank), other penalties and/or other injunctive relief and/or could have a negative effect on the Issuer's reputation. The Issuer may also incur significant expense and expend significant management time in connection with any such proceedings, even if such proceedings are ultimately concluded in its favour. If the proceedings are not

concluded in the Issuer's favour, the Issuer may also be liable for the claimant's legal costs. Any of the foregoing could have an adverse impact on the Issuer's business, financial condition, results of operations and prospects.

The Issuer Indemnity will not cover the Issuer for all losses it may suffer in respect of the Good Bank Business.

The Issuer Indemnity seeks to ensure that the Issuer is protected against claims or losses suffered by the Issuer in respect of the Good Bank Business, to the extent that such claims arise from facts, events, circumstances, acts and/or omissions that already existed at midnight on the day prior to the Transaction Effective Date (by way of example, if a loan granted by Residual Bank which forms part of the Good Bank Business proves to be unenforceable because it was illegal when granted, or the rate of interest payable under it exceeds the maximum allowed by law at the time it was granted, then the Issuer Indemnity would cover the Issuer's losses in these respects). Residual Bank has issued the Issuer Indemnity, which is guaranteed by SARB, to the Issuer and it will become effective on the Transaction Effective Date. Only certain losses will be covered by the Issuer Indemnity. For example, among other requirements, the cause of the loss must have occurred before the Transaction Effective Date, the loss must not have been accounted for in the calculation of the Top-Up Cash Amount and the aggregate maximum value of all claims must not exceed ZAR3 billion. In addition, the Issuer is obligated to mitigate such losses as well as notify Residual Bank of the relevant claims and/or losses by or before the eighth anniversary of the Transaction Effective Date, subject to extensions in certain limited circumstances. Furthermore, any loss in relation to a Good Book loan is to be calculated with reference to the fair value of the loan in accordance with IFRS as at the date of the claim (but such calculation excludes the relevant facts, events, circumstances, acts or omissions prior to the Transaction Effective Date giving rise to such loss, as otherwise the Issuer Indemnity would not achieve its intended effect). The reason for quantifying claims in respect of Good Book loans on this basis is to prevent the Issuer Indemnity from covering any deterioration in the creditworthiness of borrowers occurring after the Transaction Effective Date. As a result, the Issuer will be unable to make claims under the Issuer Indemnity in respect of Good Book loans if, for example, a borrower is unable or unwilling to repay a loan due to a deterioration in such borrower's creditworthiness after the Transaction Effective Date. For more information on the Issuer Indemnity, see "Description of the Issuer—Issuer Indemnity".

The Issuer Indemnity will therefore not cover the Issuer for all losses it may suffer in respect of the Good Bank Business. In addition, there can be no assurance that every claim made against the Issuer in respect of Good Book loans or certain acts or omissions of African Bank will be covered by the Issuer Indemnity, and it is not possible to predict what, if any, claims will be brought against the Issuer, by former creditors, customers or other stakeholders of African Bank, or what legal theories they may be predicated upon. There is therefore a risk that such claims would be of a type not covered by the Issuer Indemnity, or that the amount of these claims will exceed ZAR3 billion. Therefore, despite the Issuer Indemnity, it is possible that losses arising out of the Good Bank Business will not be covered by the Issuer Indemnity and could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer may be exposed to risks arising from the South African government's investigations into African Bank's activities.

SARB conducts periodic reviews and investigations of a number of lenders in South Africa, including African Bank, in order to monitor compliance with the Financial Intelligence Centre Act, 2001 ("FICA"). In April 2014, SARB announced that it had collectively fined the country's four largest lenders ZAR125 million for failing to implement adequate anti-money laundering ("AML") controls. In February 2015, SARB announced it had collectively fined two other banks ZAR15 million for breaching various provisions of FICA.

In August 2014, African Bank was the subject of one such periodic AML/FICA inspection conducted by SARB. A number of findings were formally communicated to African Bank, highlighting certain deficiencies in African Bank's client screening systems. African Bank and the Issuer have prepared a rectification plan of action, with the AML control function within the Issuer to receive additional resources and to implement additional systems in order to ensure that the Issuer's AML compliance obligations are discharged. African Bank and the Issuer are and will continue to be required, pursuant to the Restructuring, to provide SARB with monthly progress reports measured against the rectification plan with all deficiencies with regard to sanctions screening (which, as of 30 November 2015 have been resolved) and all other deficiencies to be resolved by no later than 30 June 2016. Any failure to comply with these requirements by the Issuer may result in fines, penalties or other remedial action, which could result in additional costs or limit or restrict the way that the Issuer conducts business and may further damage its reputation and, therefore, have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is dependent on its directors, senior management team and key personnel and its ability to recruit and retain them may be adversely affected by the Restructuring.

The Issuer depends on the continued contributions of its directors, senior management and other key personnel with the experience, knowledge and skills in retail banking and lending operations. None of the persons appointed to the board of directors of the Issuer as contemplated in the section headed "*Description of the Issuer – The Issuer's Board of Directors and Management – Composition of the Issuer's Board*", have served as a director on the board of directors of African Bank or ABIL. On 5 May 2015 and 31 July 2015, Brian Riley and Gustav Raubenheimer were appointed as Chief Executive Officer designate and Chief Financial Officer designate, respectively. The directors and senior management, therefore, have a limited track record of working together. The loss of one or more directors or members, senior management or other key personnel without finding suitable replacements, or any adverse perception resulting from the change in the Issuer's governance or management structure following the successful completion of the Restructuring, may delay or adversely affect the ability of the Issuer to finalise and implement its strategy and, therefore, have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer also relies on the skill, commitment and support of appropriately skilled and experienced key personnel for the continued success of its core lending business. As part of its strategy, the Issuer may decide to make further cost reductions, which could adversely affect staff morale, retention or the ability to recruit new staff, particularly competent and experienced credit, risk, collection, IT and other specialists. Further reductions in staff morale may have a consequential impact on customer service and cause damage to the Issuer's brand and market position and/or customer satisfaction. The loss of, or failure to attract and retain skilled employees and key personnel may have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

New HoldCo's controlling shareholders, such as SARB and other members of the Consortium, may sell their ordinary shares at any time.

The Issuer is a direct, wholly-owned subsidiary of New HoldCo, and all of the ordinary shares in New HoldCo will initially be owned by the Consortium (25 per cent. being held by the Participating Banks, 25 per cent. by the GEPIF and 50 per cent. by SARB). None of the members of the Consortium are obligated to hold their ordinary shares for any prescribed time period and, as a result, each of them may sell its ordinary shares at any time.

If the members of the Consortium were to sell or transfer their shares, there can be no guarantee that the new controlling shareholders would be willing or able to capitalise the Issuer in the future to the same extent as the Consortium has agreed to do in connection with the Restructuring or continue to support the Issuer's current

business strategy. If the Issuer does not have access to sufficient capital or is required to pursue an alternative business strategy as a result of a change in controlling shareholders, it could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects. Furthermore, as the Consortium comprises several major South African financial and governmental institutions, a sale of all or a majority of the shares held by any or all of the members of the Consortium could be perceived as a lack of confidence by its members in the Issuer's business or prospects, which could have an adverse effect on the market value of the Notes and, as a result, cause Noteholders to sell their Notes, which could have a further adverse effect on their market value.

The split between the Good Book and Residual Book is based on predetermined credit selection and performance criteria, and the value of the Good Book may be subject to further impairments.

The Good Book was selected based on credit selection and performance criteria approved by the Consortium based on loan status and performance, which were determined to be the best quality assets in terms of their risk profile, profitability and prospects for recovery. If the same criteria were applied at a later date, the split of the African Bank loan portfolio into the Good Book and the Residual Book may have been different based on the subsequent performance of certain loans within that portfolio.

Furthermore, despite the creation of the Good Book, the implementation of a more conservative provisioning policy for the Issuer relative to African Bank's policy historically and the re-evaluation of the credit methodology of African Bank and the Issuer begun by the Curator, the nature of the Issuer's business, namely as a provider of unsecured credit products to the existing African Bank target market of lower and middle income customers, is substantially similar to African Bank's business. The Good Book loans may therefore deteriorate as a result of macroeconomic factors beyond the Issuer's control or mismanagement, which could result in impairments that are equal to or higher than those of the Residual Book. See "*—The Issuer operates in South Africa, thus exposing it to the risk of political, social and economic instability.*" Impairments to the Good Book for any of the foregoing reasons could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer's financial information included in this Base Prospectus has been prepared on a pro forma and forecast basis and may not be an accurate indication of its financial performance.

Other than a "dormant" set of audited financial statements in respect of the Issuer as at 30 September 2015, before the transfer to it of the Good Bank Business, the Issuer's financial information included in this Base Prospectus has been prepared on a *pro forma* and forecast basis and is based on African Bank's audited annual financial information as at and for Financial Year 2015. For more information on the Issuer's *pro forma* and forecast financial information, see "*Presentation of Financial and Other Information*" and Annexures A3 and A5, read with A4, to this Base Prospectus.

Save for the "dormant" set of audited financial statements referred to above, prospective investors should be aware that the Issuer, as a newly formed entity, has not published any financial statements of its own and has no operating history. In addition, the forecasts relating to the Issuer in Annexure A5 to this Base Prospectus and in the sections headed "*Selected Financial and Other Information*" and "*Description of the Issuer*" show the absence of profitable operations for its business for the six months ending 30 September 2016. The effect of market conditions, such as exchange rates and interest rates, on the Issuer and its customers and counterparties, as well as the effect of other events within the Issuer, such as the Restructuring, may also cause actual results of operations and the financial condition of the Issuer for any period to be materially different from the financial information presented in this Base Prospectus. In particular, reference is made to recent fluctuations in exchange rates for the South African Rand versus foreign currencies, where a 18.5 per cent. devaluation of the Rand versus the U.S. dollar occurred between 30 September 2015 and 22 January 2016. Accordingly, without prejudice to the Issuer's responsibility statement on page 2 of this Base

Prospectus, prospective investors are cautioned that the Issuer's financial information presented herein may not be an accurate indication of its results of operations and financial position in the current and forecast periods.

Furthermore, the Issuer's *pro forma* financial information as of 30 September 2015 is based on African Bank's historical financial information as of that date, and previous historical financial information of African Bank has been restated (which also impacted prior periods to some degree), particularly with respect to African Bank's historical impairment policy. Investors should note that the Reporting Accountant of African Bank did not express an audit opinion in respect of African Bank's financial statements as of and for Financial Year 2014, which are incorporated by reference herein, due to the existence of significant uncertainties at the time regarding a restructuring of African Bank. In addition, the Reporting Accountant of African Bank included qualifications and an emphasis of matter (stating that the financial statements were not prepared on a going concern basis) in its audit opinion in respect of African Bank's financial statements as of and for Financial Year 2015, which are also incorporated by reference herein. Although the Issuer's risk management policies have been reviewed and redesigned where appropriate in an attempt to prevent a recurrence of these errors and qualifications, there can be no assurance that these new policies will prove to be effective. See *"The Issuer's risk management policy may prove inadequate for the risks faced by its business."* The inherent uncertainty in making judgements, estimates and assumptions with respect to, among other matters, the impairment of financial assets, valuation of financial instruments, insurance and taxation mean that actual results reported may be based upon amounts which differ from those estimates. If the judgements, estimates and assumptions used by the Issuer in preparing its financial statements are subsequently found to be incorrect, the Issuer may be required to make changes in accounting estimates or restate prior period financial statements in the future. Any such changes or restatements could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer's actual results could differ from the forecast results and other estimates contained in this Base Prospectus.

The forecast financial results and other estimates relating to the Issuer contained in Annexure A5 as read with Annexure A4 to this Base Prospectus and in the sections headed *"Selected Financial and Other Information"* and *"Description of the Issuer"* (including but not limited to the forecast Common Equity Tier 1 Capital ratio of the Issuer and the prospect of the Issuer achieving the CET Target) are based on certain assumptions and estimates which are inherently subject to significant uncertainties and many of which the Issuer does not control.

A list of these principal assumptions can be found in Annexure A5 as read with Annexure A4 to this Base Prospectus. Actual results may differ materially from these forecast financial results and estimates. In addition, the degree of uncertainty increases with each successive period presented. Furthermore, the forecast financial results have been prepared on the basis of certain estimates as of the date of such forecast financial results for calculating future performance for each of the financial years ending 30 September 2016, 2017 and 2018. The Issuer does not intend to publish any update or otherwise publicly revise the forecast financial results and other estimates to reflect future events or circumstances unless required by law. Without prejudice to the Issuer's responsibility statement on page 2 of this Base Prospectus, the forecast financial results and other estimates should not be relied upon for any purpose following the date of this Base Prospectus. Actual results may be materially less favourable than the forecast financial results or the estimates and assumptions on which the forecast financial results are based.

The Issuer's risk management policy may prove inadequate for the risks faced by its business.

The management of credit, liquidity, funding, operational, financial and legal and regulatory risks requires, among other things, a robust risk management policy. The board of directors is responsible for identifying the

key business risks facing the Issuer, outlining acceptable levels of risk and developing the Issuer's overall risk management policy. However, this policy may not always prove to be adequate in practice, due to, among other factors, macroeconomic volatility or a failure by senior management and other key personnel to effectively implement the Issuer's risk management policy.

Changes to the impairment policy contributed to material impairment charges on African Bank's loan portfolio, which were not reflected in prior financial years in full and not recognised by African Bank until the financial statements of African Bank as of and for the years ended 30 September 2014 and 2015.

African Bank launched an internal review of its credit lending criteria in order to establish a more robust loan origination process and to improve its ability to identify and anticipate credit risk issues. As a result of these internal and external reviews, African Bank documented and approved new credit control standards as part of the development of its overall revision of its risk management framework and policy, which, for example, reduced maximum loan sizes and terms and implemented more detailed credit control checks. For more information on the Issuer's ongoing examination of its risk management policy, see "*Description of the Issuer – Risk Management*".

This revised risk management framework and policy will take time to implement within the Issuer's business units. Furthermore, while the Issuer has a range of tools designed to measure and manage the various risks which it faces, these methods may prove to be inadequate for predicting risk exposure, which may prove to be significantly greater than predicted. The Issuer's methods for risk management are based on its evaluation of market, customer and other data, which may be imprecise or evaluated inaccurately. In addition, even though the Issuer constantly measures and monitors its exposures, there can be no assurance that its revised risk management policies will be effective, particularly in unusual or extreme market conditions. Any such matters could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Risks related to the business and the industry of the Issuer

The Issuer faces significant competition, which may increase in the future and have an adverse impact on its business.

The Issuer faces significant competition from banks that provide unsecured lending, such as Capitec Bank Holdings Limited, as well as competition from large, traditional banks such as Absa Bank Limited, FirstRand Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited. Many of these institutions have greater financial and other resources than the Issuer and have not been subject to the financial and reputational difficulties faced by African Bank. See "*—The Issuer's reputation and competitive position have been adversely affected by the Curatorship and the prolonged implementation of the Restructuring*". In addition, there are major non-bank credit providers that compete in the unsecured lending market with brands and products that are similar to the Issuer's product offerings. Other competitor groups include the various retailers who provide credit to their customers in respect of clothing, furniture and appliances. These organisations compete for substantially the same customers as the Issuer and, due to the erosion of the Issuer's competitive position during the period of the Curatorship, these competitors may attract and retain customers who had previously used African Bank, which could further decrease the Issuer's customer base. The Issuer's market position may deteriorate if its competitors deploy greater financial resources, have access to lower-cost funding or operate at a lower cost due to a less regulated environment (compared to banks, for example) or are able to offer a broader suite of products than the Issuer. The Issuer may also be unable to introduce new products and services ahead of its competitors and would therefore not derive any competitive advantage from being first-to-market. Failure to compete effectively in the South African market would, therefore, have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Capital adequacy and regulatory ratios may constrain the Issuer's profitability and/or growth.

The Issuer is required by SARB, to comply with certain capital adequacy ratios and other ratios. The capital adequacy regime in South Africa and globally has been subject to significant change in recent years. See “—*The Issuer operates in a highly regulated environment which is subject to change—The Banks Act and regulations relating to banks and liquidity*”. The Issuer's ability to maintain its ratios could be affected by a number of factors, including:

- (a) an increase of the Issuer's risk weighted assets;
- (b) the Issuer's ability to raise capital, including a change in the ability of New HoldCo to make capital contributions to the Issuer;
- (c) losses resulting from a deterioration in the Issuer's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;
- (d) changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and
- (e) increases in minimum capital adequacy ratios imposed by SARB.

At the conclusion of the Restructuring, assuming a Transaction Effective Date of 1 April 2016 (which, for practical purposes is targeted to occur on 4 April 2016 or such earlier or later date as the Curator may announce), the Issuer's forecast Total Capital Adequacy Ratio is expected to be 34.1 per cent., calculated in accordance with the rules contained in the Basel III accord (the “**Basel III rules**”), based on the assumptions included in Annexure A5 to this Base Prospectus. See “*The Banking Sector and Relevant Regulation in South Africa—Principal Legislation—Banks Act, 1990 and Regulations Relating to Banks—Basel III*” and “*Capital and Liquidity Adequacy*”.

Although in accordance with the Restructuring, and following the completion of the Restructuring and the issuance of New Debt Instruments pursuant thereto, the Issuer's capitalisation will meet all applicable regulatory requirements, the Issuer may need to raise additional capital in the future. The Issuer's ability to raise capital may be limited by numerous factors, including general economic and financial conditions, the availability of funding in the capital markets generally or from the Issuer's shareholders, investor confidence, sentiment towards the South African economy and the credit rating, financial condition and results of operations or prospects of the Issuer. There can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Any failure to raise additional capital in the future (whether on favourable terms or at all) may restrict the Issuer's growth plans including its ability to grow its loan portfolio. See also “—*The Issuer is exposed to funding and interest rate risk*”.

Any breach of SARB's regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in the Issuer being subject to administrative sanctions, which may result in an increase in its operating costs, reputational loss or the Issuer being placed under curatorship or in liquidation. Any of these events could have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects as well as directly and adversely affecting the value of the Notes and other New Debt Instruments issued by the Issuer.

The Issuer's lending business is inter-dependent with its newly established credit life insurance business.

Historically, African Bank required its customers, as a condition to receiving a loan, to obtain credit life insurance, which covered a customer's outstanding credit obligations to African Bank in the event of the customer's death, disability or retrenchment. The vast majority of African Bank's customers purchased this

product from Stangen, and Stangen paid monthly fees and commission to African Bank based on these sales, which constituted a significant and profitable source of revenue for African Bank.

The New HoldCo Group will seek to replicate this business model through a “cell captive” arrangement with Guardrisk Life Limited (“**Guardrisk**”), a registered long-term insurance company which offers insurance through a contractual arrangement widely used in South Africa known as a “cell captive”. See “*Description of the Issuer—Business of the Issuer—Cell Captive Arrangement.*” Under this contractual arrangement between Guardrisk and InsureCo, Guardrisk has established a new insurance “cell” which has been capitalised by InsureCo through the subscription of a specific class of shares in Guardrisk. Through this shareholding and the related contractual arrangements, InsureCo will be entitled to the underwriting profits and be responsible for the underwriting losses in respect of the insurance business generated in that cell. The funds for the initial capital of the new insurance cell have been made available by African Bank in the form of a loan to New HoldCo, with the proceeds thereof then contributed as equity to InsureCo. On the Transaction Effective Date, such loan claim will be transferred from African Bank to the Issuer for value as part of the Restructuring.

In addition, Guardrisk and the Issuer will enter into contractual arrangements in terms of which the Issuer will offer credit life insurance products underwritten by Guardrisk and will perform certain services in connection with those policies and be entitled to receive fees and commissions for such services from Guardrisk. The profits and losses associated with these insurance products will be ring-fenced in the cell established for InsureCo. The Issuer’s revenue will depend, in part, on these fees and commissions. In addition, the level of the Issuer’s debt recovery rates will depend on the ability of Guardrisk to meet its obligations under its credit life insurance policies.

The cell will depend on the generation of new credit life insurance business for its revenue rather than on the existing policies of Stangen, and there can be no assurance that the new insurance cell will be successful in generating new business, or that it will be able to do so profitably. In addition to the fees and commissions mentioned above, InsureCo will realise income from Guardrisk under the new insurance cell structure in the form of dividends paid from the profits made in the cell and, if the cell is unprofitable, no dividends will be paid to InsureCo. Even if the new insurance cell is profitable, if losses are suffered in other cells of Guardrisk and the shareholders of these loss-making cells default on their capitalisation obligations, then Guardrisk may not be in a position to declare and pay dividends to InsureCo. Although Guardrisk will provide buffer capital to absorb any such losses, there can be no assurance that this capital buffer will be sufficient in all circumstances.

In addition, this cell captive arrangement obligates InsureCo to contribute capital to Guardrisk in respect of the cell captive structure to ensure that the cell complies with minimum solvency and capital adequacy requirements at all times. In the event that InsureCo cannot meet this obligation to further capitalise the new insurance cell, InsureCo may need to seek additional funding from the New HoldCo Group or other sources and, if InsureCo is unsuccessful, Guardrisk may exercise its right to take control of the new insurance cell’s business. If this were to occur, the New HoldCo Group could lose the value of its investment in InsureCo, which will, in turn, result in a write-down or impairment of the corresponding loans made by the Issuer to New HoldCo. Furthermore, these events could adversely impact the sale of credit life insurance policies by the Issuer, which could result in the loss by the Issuer of some or all of the fees and commission generated from those sales. These factors could have an adverse effect on the Issuer’s business, financial condition, results of operations and prospects.

Furthermore, as the cell is a newly established insurance business, the Issuer will be required to spend significant time and resources in the short- to medium-term to hire employees and implement the administrative functions necessary to ensure that the new insurance business is operational. There is a risk that the costs of implementing these administrative functions will be higher than currently anticipated, or that such implementation will take longer than currently planned for reasons described above. The implementation

of the cell captive arrangements could also be delayed as a result of a dispute initiated by Stangen, alleging that it should benefit from a continued exclusive arrangement with the Issuer. If the establishment and operation of the cell captive arrangement is delayed for any reason, the Issuer will be unable to realise the revenue generated from the fees and commissions from sales of credit life insurance policies underwritten by Guardrisk.

Stangen, which is not part of the New HoldCo Group, will continue to administer existing credit life insurance policies held by the Issuer's customers in connection with their Good Book loans which may adversely affect loan recovery rates.

The Issuer will acquire the Good Bank Business, which includes the Good Book, from African Bank on the Transaction Effective Date. The vast majority of customers with loans in the Good Book also hold credit life insurance policies in connection with these loans, which are administered by Stangen. For the time being, Stangen will continue to administer existing credit life insurance policies held by the Issuer's customers in connection with their Good Book loans, but it is likely that a significant portion of this insurance will be brought within the cell captive arrangement in the short term. As the Issuer and Stangen no longer benefit from the synergies from cross-selling their products within the ABIL Group, operational inefficiencies and other factors may result in Stangen paying out claims to the Issuer's customers more slowly or rejecting more claims than it had historically as part of the ABIL Group. If this occurs, the Issuer's loan recovery rates will decrease, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Reputational damage could cause harm to the Issuer and its business prospects.

An entity's reputation is one of its most important assets. The Issuer's ability to attract and retain customers and staff and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brand is further damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Issuer's business, financial condition, results of operations and prospects. Reputational issues in respect of the Issuer include, but are not limited to:

- (a) the reputational damage arising from the various credit rating downgrades of African Bank, its disappointing financial results during the Financial Years 2013 and 2014, ultimately resulting in the Curatorship, the restatement of the financial results for the Financial Years 2012 and 2013 and continuing press reporting and public scrutiny of the Curatorship;
- (b) any potential litigation or objections that may arise from creditors in connection with the Restructuring as a whole and associated media coverage;
- (c) being required to raise further capital in the future, which could affect, or be perceived to affect, confidence in the Issuer;
- (d) a reduction in the Issuer's customer service levels resulting from any cost-cutting to the Issuer's business;
- (e) actions of African Bank or ABIL which adversely impact the Issuer's brand, as well as adverse findings following from any legal or regulatory investigation into African Bank or ABIL's conduct, in particular any criticism that may arise from the independent Myburgh Commission into the events which led to the announcement of the Curatorship;
- (f) any actual or alleged breaches by African Bank or the Issuer of legal and regulatory requirements that may arise or facing allegations of having acted unlawfully or unethically (including having adopted

inappropriate sales and trading practices) or failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;

- (g) technology failures that impact upon customer services and accounts;
- (h) an inability to refinance restructured funding which begins to mature in 2018;
- (i) internal fraud or misconduct; or
- (j) generally poor company performance.

Any current or further damage to the Issuer's reputation due to any of the foregoing issues could make customers and funders unwilling to do business with the Issuer or damage its relationships with its regulators and all of its other stakeholders, which could in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

The Issuer operates in South Africa, thus exposing it to the risk of political, social and economic instability.

The Issuer derives its revenue from its operations in South Africa as its advances book comprises loans to individuals employed by South African entities. As a result, the Issuer faces a geographic concentration risk. South Africa is generally considered to be a developing economy. Investors in developing economies such as South Africa should be aware that these markets are subject to greater risk than more developed markets. These risks include economic instability as well as, in some cases, significant legal, political, social and socio-economic risks, including the following:

- (a) general prevailing economic and business conditions;
- (b) high interest rates;
- (c) fluctuations in exchange rates for South African Rand versus foreign currencies;
- (d) fluctuating levels of inflation;
- (e) government policies which may adversely affect the financial sector or the banking industry;
- (f) labour unrest, strikes and civil protests;
- (g) exchange controls and changes in exchange control legislation;
- (h) wage and price controls;
- (i) changes in economic or tax policies;
- (j) the imposition of trade barriers;
- (k) health issues and incidences of disease, including HIV/AIDS;
- (l) poverty, crime and social inequality and/or social unrest;
- (m) the inability to maintain critical infrastructure in South Africa, including the provision of electricity;
- (n) negative economic or financial developments in other emerging market countries;
- (o) changes in investor confidence; and
- (p) perceived or actual security issues or political instability.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes.

The South African economy has continued to grow in recent years and, according to the International Monetary Fund (the “IMF”) World Economic Outlook, economic growth is expected to continue at a rate between 0.9 to 2.4 per cent. per annum between 2016 and 2017. Inequality in wealth distribution remains one of the largest potential destabilising factors in South Africa, as it may exacerbate unemployment, poverty and crime as well as lead to political and social instability in the form of labour unrest, strike and civil protests, which could have an impact on the Issuer’s customer base and certain of its service providers. See “—*The Issuer’s operations may be disrupted by increased trade union activity in South Africa*”. Any adverse changes affecting the South African economy or increases in political instability could have a material adverse effect on the Issuer’s business, financial condition, results of operations and prospects.

The Issuer’s customers, who generally have modest incomes, are particularly affected by macroeconomic factors, such as inflation, unemployment and the general cost of living, and generally have less capacity to deal with financial emergencies and reductions in disposable income than higher income groups. Furthermore, African Bank’s loan disbursements have declined in recent years due to reduced demand for credit in African Bank’s target market, an increase in rejections of loan applications as a result of the deteriorating creditworthiness of loan applicants and the tightening by African Bank of its credit-granting criteria. For more information, see “*Description of the Issuer- The Issuer’s Assets and loan portfolio-the Good Book*”. If the rate of economic growth in South Africa slows or other macroeconomic factors do not perform as expected, the Issuer’s customers could further reduce their demand for its products and services, or fail to meet existing loan commitments, which may have a material adverse effect on the Issuer’s business, financial condition, results of operations and prospects. Accordingly, any adverse changes affecting the South African economy could also have a material adverse effect on the Issuer’s business, financial condition, results of operations and prospects.

Volatility in the international financial markets and the global economy could have an adverse effect on the South African economy and the Issuer’s business.

The Issuer’s business is affected by general prevailing economic and financial market conditions in South Africa. The financial markets in South Africa are less mature than other, more developed markets and, as a result are less liquid and more volatile than developed markets. Like other emerging markets, the capital and financial markets in South Africa are also influenced by global economic conditions.

Since the global financial crisis in 2008, global economic conditions and financial markets have experienced significant volatility. The factors contributing to the recent volatile conditions that have affected emerging markets included the tapering of the United States Federal Reserve’s (the “Fed”) quantitative easing programme in 2014 and the uncertainty surrounding the timing of the first increase of the Fed’s benchmark interest rate in 2015, which was increased by 0.25 per cent. in December 2015, and the remaining uncertainty of the interest rate path following this increase, as well as the continued instability of Europe’s sovereign credit markets, and the events in Greece in particular. There remains significant uncertainty about the Fed’s and the European Central Bank’s (the “ECB”) monetary policies and their impacts on the global economy generally. In addition, there can be no assurance that the contagion effects of any deterioration in some or all of the territories within the Eurozone would not adversely affect the global economy. This continued turbulence in the global economy or, for example, a renewed decline in demand for imports from the European Union could have an adverse effect on South African exports or a reduction in per capita income and, therefore, consumer spending. In particular, decreased demand for resources in China has had and may continue to have a significant effect on the prices of commodities in South Africa, which are heavily dependent on these resources. Continued or increased levels of volatility in global economic conditions and financial markets could adversely affect the South African economy, and, in turn, the Issuer’s business, financial condition, results of operations and prospects.

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 prevailing economic and market conditions in other countries, particularly other emerging market countries (this is sometimes referred to as “contagion” effect). 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 and confidence 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 or compromise the Issuer's ability to finance its operations in the future on favourable terms, or at all, each of which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

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. See “*Description of the Issuer—Risk Management*” for a discussion of the Issuer's credit risk management policies. Consequently, adverse changes in the credit quality of the Issuer's customers could reduce the value of the Issuer's assets, which would require increased provisions for bad and doubtful debts. In particular, African Bank's and the Issuer's results of operations have been and will be affected by the level of impairment charges applied to their respective loan portfolios. 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 portfolios are primarily composed of secured lending and loans to a broader spectrum of customers. As a result, net impairment charges could grow as a percentage of gross loans as the Issuer seeks to grow its loan portfolio.

The Issuer underwrites new loans utilising in-house-developed statistical scorecards, various affordability calculations as well as a number of business rules, which are monitored on a monthly basis and adjusted when necessary. Despite these controls, it is possible that they will not function as intended due to external market factors or human or IT errors. Furthermore, credit methodologies are fallible by their very nature. Their actual performance depends on customers behaving as predicted by statistical models and is dependent on various external factors, such as economic conditions, and internal factors, such as collections strategies. If any of these controls fail and customers fail to repay their loans at a higher rate than anticipated, this could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to liquidity risk.

Liquidity risk is the inability to discharge funding or trading obligations as and when they fall due. Liquidity risk is compounded in the Issuer's business due to the fact that it does not have transactional banking capabilities or access to significant retail deposits and, therefore, relies significantly on wholesale funding to a greater degree than other banking groups in South Africa that fund a significant portion of their operations through retail deposits. The Issuer's liquidity risk is further compounded by its need to re-establish itself as a reliable counterparty in the domestic and international capital markets due to the negative publicity surrounding the Curatorship, which has damaged the Issuer's market reputation. For more information on the Issuer's funding and capital arrangements, see “*Description of the Issuer – Equity and Capital in the Issuer/Liquidity of the Issuer*”.

As a result of the implementation of the Restructuring, the Issuer anticipates generating relatively higher levels of cash due to the extension of maturing liabilities inherent in the Restructuring and surplus collections over disbursements in the short term. However, in the medium and long term, the Issuer will require access to

wholesale funding and its ability to do so on acceptable terms, or at all, depends on a variety of factors, such as general market conditions, the Issuer's performance in discharging its funding or trading obligations, confidence in the South African banking system in general, systemic liquidity constraints, trading volumes, the Issuer's credit ratings and credit capacity, short- and long-term maturity mismatches and customers' and funders' perceptions of the Issuer's strategy and financial prospects. Unfavourable trends in any of the foregoing factors could result in an inability of the Issuer to raise wholesale funding, resulting in a liquidity shortage. If traditional funding sources previously accessed by African Bank are unavailable to the Issuer, it would be required to seek to utilise other, possibly more expensive, sources to meet its funding needs, which could decrease the Issuer's net margins and have a material adverse effect on its business, financial condition, results of operations and prospects.

The Issuer is exposed to funding and interest rate risk.

A major portion of the Issuer's initial domestic funding referred to in the section headed "*Description of the Issuer – Liquidity of the Issuer*" will be from fund managers in South Africa. However, legislation in South Africa restricts the exposure that such fund managers may have to an individual bank and, accordingly, the Issuer may need to obtain alternative sources of funding in the future. There can be no assurance that such financing will be available, when required, on commercially acceptable terms or at all.

The Issuer is also exposed to funding concentration risk. The Exchange Control Regulations restrict the export of capital from South Africa without the approval of the Financial Surveillance Department of 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 banks in South Africa having to rely 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 restrictions imposed by the Exchange Control Regulations also limit individuals and corporates from making deposits or otherwise remitting currency outside of 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, results of operations and prospects.

Even if the Issuer is able to access funding, it may face increased borrowing costs as a result of interest rate volatility or the credit rating of South Africa. 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 corresponding change in the cost of funding, which is particularly challenging in a volatile interest rate environment, could affect the Issuer's cost of funds and profit, which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to market risk.

The Issuer's liabilities include the Notes issued under the Programme. The Notes are hedged by a combination of derivative hedging trades and foreign currency cash holdings at the commencement of the Base Case Period. However, imbalances may arise through the Base Case Period primarily due to the non-alignment of cash flows between the derivative hedging trades and the payment of interest on the Notes, which typically exceed the interest earned on the foreign currency cash held as a hedge. While the potential impact of these imbalances on the Issuer's income statement has been calculated with reference to the forecast

exchange rates set out in section 5.6.4 of Annexure A to this Base Prospectus and capital has been allocated for this market risk as described in section 5.7 of Annexure A to this Base Prospectus, there can be no assurance that the estimates and assumptions on which the forecast exchange rates are based or the capital amounts allocated will be sufficient to cover any losses due to further ZAR depreciation against USD or CHF.

If losses due to this depreciation are greater than anticipated, the Issuer's actual results may be materially less favourable than the forecast financial results or the estimates and assumptions on which the forecast financial results are based. Any such changes could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer could be adversely affected by changes to its credit rating or that of South Africa.

The Issuer intends to obtain a credit rating. Once obtained, such credit rating will affect the cost and other terms upon which the Issuer is able to obtain funding. It is anticipated that rating agencies will regularly evaluate the Issuer and their ratings of the Issuer's long-term debt will be based on a number of factors, including capital adequacy levels, quality of earnings, credit exposure, the Issuer's risk management framework and funding diversification.

A downgrade or potential downgrade of the South African sovereign rating, a change in rating agency methodologies relating to systemic support provided by the South African sovereign or a change in the long-term foreign currency issuer default ratings for South Africa (which were 'BBB-' (stable outlook), 'Baa2' (on review for downgrade) and BBB- (negative outlook) as at December 2015) from Fitch Ratings Limited, Moody's and Standard & Poor's Credit Market Services Europe Limited (Frankfurt Branch), respectively, could increase the cost of financing of the South African public debt, which may result in increased taxation and lower government spending in South Africa, as well as raise the cost of funding for the Issuer and reduce access to capital markets and the profitability of the Issuer, all of which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to operational risk.

The Issuer is exposed to operational risk resulting from the inadequacy or failure of internal processes, people, systems or from external events, as well as the risk of loss due to employees' lack of knowledge or wilful violation of laws, rules and regulations or other misconduct. This misconduct could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including violation of the Issuer's own internal risk management policies, could also include binding the Issuer to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. The Issuer is susceptible to, and has experienced in the past, among other things, fraud by employees or outsiders, unauthorised transactions by employees and operational errors, including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems.

In addition, the Issuer relies on the proper functioning of IT and communication systems, some of which are provided by third parties, to price and sell its products, process payments, collect data, assess acceptable levels of risk exposure, set required levels of provisions and capital and maintain customer records and security.

In particular, the Issuer's lending platform is enabled and supported by an IT system that was designed for African Bank's business model, and is a core element of the Issuer's credit scoring process. Both the Good Book and the Residual Book will be administered on this IT system, which may not operate as expected due to increases in usage, human error, fraud, unauthorised access, computer viruses, malicious hacking, physical

damage to IT centres and software or other hardware malfunctions. Any failure of the Issuer's IT and communications systems, or third-party infrastructure on which the Issuer relies could lead to significant costs and disruptions that could adversely affect the operational or financial performance of the business as well as harm the Issuer's reputation, cause the Issuer to breach its obligations as a regulated entity and/or attract increased regulatory scrutiny.

The Issuer outsources certain IT and communication services to third-party providers. If a third party provider fails to provide the Issuer with timely or adequate services, the Issuer may be required to source these services at a higher price than anticipated and could face delays caused by this failure or delay. This could adversely impact the Issuer's profitability, as there can be no assurance that it will be able to pass on any increased costs to its customers.

In addition, if the Issuer delays or fails to enhance its IT and communication systems, or fails to engage competent third parties to do so, it may not be able to execute its business strategy or meet the expectations or changing demands of its clients, which could result in the Issuer's inability to compete successfully in the market and, therefore, could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

Failure to maintain adequately and protect customer and employee information could have a material adverse effect on the Issuer.

The Issuer collects and processes personal data (including names, addresses, age, bank and credit card details and various other personal information) from its customers, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws and industry standards in South Africa (including in particular the Protection of Personal Information Act, 2013 (the "POPI Act"). The POPI Act is intended to promote the right to privacy entrenched in the Constitution of South Africa, whilst simultaneously protecting the flow of information and advancing the right of access to information. The POPI Act prescribes the rules and practices which must be followed when processing information about individuals has introduced certain minimum conditions such as acquiring customer consent before processing personal information and provides for the establishment of an independent regulator to enforce these rules, rights and practices.

These laws and standards impose certain requirements on the Issuer in respect of the collection, use, processing and storage of such personal information. For example, under South African data protection laws and regulations, when collecting personal data, certain information must be provided to the individual whose data is being collected. This information includes the identity of the data controller, the purpose for which the data is being collected and any other relevant information relating to the processing. There is a risk that data collected by the Issuer and its appointed third parties is not processed in accordance with notifications made to, or obligations imposed by, data subjects, regulators, or other counterparties or applicable law. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potentially inaccurate rating of risks, any of which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is also subject to certain data protection industry standards, and may be contractually required to comply with those standards. For example, as a major processor of payments from payment cards, the Issuer is required to comply with the Payment Card Industry Data Security Standard as part of its contractual obligations to merchant acquirers.

In addition, the Issuer is exposed to the risk that the personal data it controls could be wrongfully accessed and/or used, whether by employees or any other third parties, or otherwise lost or disclosed or processed in breach of data protection regulations. If the Issuer or any of the third-party service providers on which it relies fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Issuer could face liability under data protection laws. This could also result in damage to the Issuer's brands and reputation as well as the loss of new or repeat business, any of which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

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 NCR, who is responsible for overseeing activities which fall within the ambit of the NCA, (ii) the Registrar of Banks, who oversees activities falling within the ambit of the Banks Act and the Regulations Relating to Banks, and (iii) the FSB (the Registrar of Financial Services Providers), 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**"). 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. See "*—Change of Law*".

The Issuer will continue to assess the impacts of legal and regulatory developments which could have an effect on the Issuer, and will participate in relevant consultation and collaboration processes undertaken by various regulatory and other bodies. Nevertheless, 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, results of operations and prospects.

Areas where regulatory changes could have a material adverse effect on the Issuer include, but are not limited to, the following:

The NCA 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.

Further the National Credit Amendment Act, 2014 enacted various 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 and to authorise the removal of certain (and potentially vital) adverse information from a credit bureau's records.

On 6 November 2015, the Department of Trade and Industry (the "**DTI**") published the New NCR Regulations which, most significantly, reduce the maximum prescribed interest rate on unsecured credit transactions from $2.2 \times \text{Repo Rate} + 20$ per cent. to $\text{Repo Rate} + 21$ per cent. (which, based on a Repo Rate of 7.0 per cent. at the date of this Base Prospectus, is a reduction of 7.4 per cent.). The cap on credit facilities is proposed to reduce from $2.2 \times \text{Repo Rate} + 10$ per cent. to $\text{Repo Rate} + 14$ per cent. The reduced maximum prescribed interest rate will apply with effect from 6 May 2016. In addition, caps on amounts which can be charged for credit life insurance have been proposed. See "*—Limit on credit life premiums*" below. As a result

of these amendments, the Issuer may need to alter its allocation of capital across the credit risk curve, resulting in certain customers receiving loan offers that are smaller than what they had requested.

Any reduction in the rate of interest on loans could have significant repercussions for the industry as a whole and, in particular, the Issuer's ability to continue to pursue its business model successfully and profitably given the historic concentration of African Bank's lending business to customers with lower and middle incomes, which could have a material adverse effect on the Issuer's financial condition, results of operations and prospects.

See "*The Banking Sector and Relevant Regulations in South Africa –Principal Legislation –National Credit Act, 2005 ("NCA")*" for more information on regulatory developments relating to the NCA.

The Banks Act and regulations relating to banks and liquidity

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–Principal Legislation– Banks Act, 1990 and Regulations Relating to Banks–Basel III*" and "*Capital and Liquidity Adequacy*". 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. 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.

Banks Amendment Act, 3 of 2015

Following the recent amendments to the Banks Act introduced by the Banks Amendment Act 3 of 2015, the curator of a bank who applies for permission to effect a transfer of assets or other transaction contemplated in section 54 of the Banks Act, must report to the Minister of Finance or the Registrar of Banks (as the case may be) on the expected effect of the relevant transaction on the bank's creditors and, in particular, on whether (i) the creditors of the bank will be treated in an equitable manner and (ii) a reasonable probability exists that a creditor will not incur greater losses, as at the date of the proposed transaction, than would have been incurred if the bank had been wound up in terms of section 68 of the Banks Act on the date of the proposed transaction.

The Minister of Finance or the Registrar of Banks (as the case may be) must, in addition to the requirements of section 54 of the Banks Act, now also consider the curator's report on the abovementioned matters in making his or her decision whether or not to approve the relevant transaction.

However, the Minister of Finance or the Registrar of Banks (as the case may be) may consent to the relevant transaction notwithstanding the fact that the effects referred to above are not achieved, if the transaction concerned is nevertheless in the opinion of the Minister of Finance or the Registrar of Banks (as the case may be) reasonably likely to promote the maintenance of (i) a stable banking sector (ii) public confidence in the banking sector.

Limit on credit life premiums

The National Credit Amendment Act, 2014, included a provision empowering the Minister of Trade and Industry, in consultation with the Minister of Finance, to prescribe the limit in respect of the cost of credit insurance that a credit provider may charge a consumer. See “—*The NCA and unsecured lending*” and “*The Banking Sector and Relevant Regulations in South Africa—Principal Legislation—National Credit Act, 2005 (“NCA”)*”.

On 13 November 2015, the South African Department of Trade and Industry published draft “*Credit Life Insurance Regulations, 2015*” for comment, which includes, among others, a proposal to limit the cost of credit life insurance. These draft regulations propose that the maximum cost that a credit provider may charge a consumer in relation to credit life insurance, which a consumer is obliged to maintain for the duration of the credit agreement, may not exceed ZAR4.50 per ZAR1 000 (including the cost of any commission, fees or expenses) of the deferred amount, calculated on the total of the consumer's outstanding obligations under the credit agreement. If the credit life insurance cover provides that a consumer's total outstanding obligations will be settled in the event of the consumer being temporarily disabled or being unable to earn an income, the proposed regulations permit that the maximum prescribed limitation of the cost of credit life insurance may be increased by an additional ZAR1.00 per ZAR1 000. The draft regulations also propose that the consumer is given the right to substitute an insurance policy of the consumer's choice at any time after the credit agreement has been entered into if the premium and benefits under the new policy are the same as or better than those under the current policy. There remains some uncertainty about the final details of and timelines for the implementation of any such cap on the cost of credit life insurance.

If, as a result of these powers, the maximum cost that a credit provider may charge a consumer in respect of credit life insurance is prescribed at a level which leads to insurers limiting insurance benefits in terms of credit life policies, this may lead to more of the Issuer's customers not having sufficient insurance cover for eventualities, which in turn may lead to higher credit losses for the Issuer. Increased credit losses will lead to the Issuer cutting back on new lending. In addition, the Issuer may proceed to collect on the outstanding delinquent debt obligations from the customers directly, rather than recovering it from insurance companies. Any such outcome may have an adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Retail distribution review

A discussion paper outlining the results of the Retail Distribution Review (“**RDR**”) was released for comment by the FSB in November 2014. The paper proposes a number of far-reaching reforms to the regulatory framework for distributing retail financial products (such as credit-life insurance) to customers in South Africa.

A total of 55 proposals are put forward in the discussion paper, which are grouped around:

- (a) the types of services provided by intermediaries to customers and product suppliers respectively;
- (b) rationalisation of the range of relationships between product suppliers and intermediaries. Proposals under this heading also address the responsibility of product suppliers for advice and intermediary/outsourced services provided; and
- (c) the types of intermediary remuneration models that should apply to the revised sets of services and relationships proposed, including measures to deal with conflicts of interest in the provision of financial advice.

RDR will require a review of the payment of commissions and fees for intermediary services, binder services and outsourced services between the Issuer and third party insurers (such as Guardrisk) in respect of credit life business offered through the Issuer's infrastructure to customers of the Issuer. When RDR is

implemented, such services will have to be defined in more detail by the Issuer and remuneration must clearly be linked to the range of services that the Issuer performs on behalf of either customers or such third party insurers in the management of credit life business. There will also be more onerous obligations on the Issuer as a financial services provider (“FSP”) in performing, for example, “low advice” services to customers where the Issuer’s distribution models include limited advice; and at the same time more onerous obligations on such third party insurers to ensure the Issuer as their agent is acting in the best interest of customers.

There remains uncertainty about the final details of and timelines for the implementation of RDR. While it is anticipated that financial service income that the Issuer will receive as a result of its intermediary relationship with Guardrisk will reduce from the level of financial service income that African Bank historically received from its relationship with Stangen due to the implementation of RDR, the Issuer is not able to predict whether this will have a material impact on the Issuer’s financial condition, business or results of operations. See “*The Banking Sector and Relevant Regulations in South Africa*” – “*Regulatory Developments*” – “*South Africa: FSB – Retail Distribution Review Paper*” for more information on regulatory developments relating to the RDR.

Financial Sector Regulation Bill and Resolution Framework for Financial Institutions

The Financial Sector Regulation Bill (the “**FSR Bill**”) which was published for comment in December 2014 proposes to introduce significant reforms to the South African financial sector regulatory framework. The FSR Bill gives effect to the South African Government's decision to move towards a "twin peaks" model of financial regulation for South Africa. The FSR Bill provides for the establishment of two new regulators, namely the Prudential Authority and the Financial Sector Conduct Authority. As a bank, credit provider and financial services provider, the Issuer is likely to be subject to regulatory oversight by both of the proposed new regulators. National Treasury intends for the proposed reform measures to be implemented in two phases. Phase 1 will see the establishment of the two new regulators and assignment of powers (through the FSR Bill) to them. Phase 2 will involve the amendment or replacement of specific laws with laws that are in line with the twin peaks model of regulation. Current indications are that the FSR Bill will enter into effect in April 2016. As the contents of the FSR Bill and the regulations thereunder have not yet been finalised, the Issuer is not able to predict whether it will have a material impact on the Issuer's financial condition, business or results of operations.

On 13 August 2015, National Treasury, SARB and the FSB published for public comment a discussion document titled “*Strengthening South Africa’s Resolution Framework for Financial Institutions*” which sets out the motivation, principles and policy proposals for a strengthened framework for the resolution of designated institutions in South Africa. The document sets out how the special resolution framework for so-called “designated resolution institutions” will apply to banks, but highlights that further work will be undertaken to develop specific proposals on applying the special resolution framework to non-bank financial institutions, financial market infrastructure and financial conglomerates. The document is, at this stage, only a position paper and is intended to solicit public comment and serve as a basis for further industry discussions and preparation for the drafting of the Bank Resolution Bill.

The Issuer may be subject to government and regulatory investigations of the financial sector.

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 and the Issuer may be subject to such reviews and investigations in the future. 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, the Issuer 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, the Issuer has no reason to believe

that any such reviews or investigations will uncover or reveal any material deviation from prudent lending practices, which could have a material adverse effect on the business, financial condition, results of operations and prospects of the Issuer.

Potential regulatory investigations could also arise in connection with other applicable regulations and cause reputational damage to the Issuer's brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical. Failure to appropriately manage conduct and reputation risks may reduce directly or indirectly, the attractiveness of the Issuer to stakeholders, including customers, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business, reduced workforce morale, and difficulties in recruiting and retaining talent. Any of the foregoing could have a material adverse effect on the Issuer's operations, financial condition and prospects.

Uncertainties relating to the interpretation of certain regulations could adversely affect the Issuer.

The interpretation of regulations by courts is subject to a number of uncertainties and, therefore, the outcome of their interpretation by the courts in South Africa is not predictable. These courts may apply or interpret regulatory standards or requirements differently from the interpretation of the Issuer. Accordingly, there is a risk that certain transactions, agreements or other actions by the Issuer could be held to be invalid, non-compliant or in breach of applicable law, which could expose the Issuer to the risk of regulatory proceedings or private litigation and potentially result in costly and lengthy appeal court proceedings, any of which could have a material adverse effect on the Issuer's reputation, business, financial condition, results of operations and prospects.

The Issuer is exposed to the risk of fraud, bribery and corruption.

The Issuer is 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, members of the board of directors or other key personnel, 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 losses or civil and criminal penalties where its employees engage in any impermissible or illegal activity, which may have a materially adverse impact on the Issuer's reputation, business, financial condition, results of operations and prospects.

The Issuer's operations may be disrupted by increased trade union activity in South Africa.

South Africa has regularly experienced high levels 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 to 2015, which have caused 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.

If, as a result of further increased labour action, customers of the Issuer find themselves out of employment or on strike, these customers' ability to repay their loans to the Issuer could be affected, which may result in more bad debts held by the Issuer. In addition the Issuer may incur increased labour costs or losses due to increased industrial action. Any of these matters could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

HIV/AIDS poses risks to the Issuer in terms of lost productivity and debt collection.

Statistics South Africa estimated that approximately 6.19 million people, or 11.2 per cent., of the South African population was living with HIV in 2015. The socioeconomic 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 difficulty in recruiting and retaining employees or collecting outstanding debts from its customers.

Any direct or indirect further 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 and customers, the progressive impact of HIV/AIDS on infected employees' and customers' health and productivity and the medical and other costs associated with infection. Notwithstanding the fact that an HIV treatment programme was rolled out to employees of African Bank, 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 and customers is beyond its control and a significant increase in such incidences could adversely impact its business, financial condition, results of operations and prospects.

Terrorist acts and other acts of war could have a negative impact on the business.

Terrorist acts, other acts of war or hostility and responses to those acts, may create economic, social and/or political uncertainties. 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, results of operations and prospects.

The Issuer's insurance policies may not cover, or fully cover, certain types of losses.

The Issuer generally maintains insurance policies covering its fixed assets and operations as well as directors' and officers' liability insurance in line with general business practices in South Africa, with policy specifications and insured limits, which the Issuer believes are adequate. The Issuer is insured against certain risks, including, fire, lightning, flooding, theft, fraud, vandalism and third-party liability. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. In particular, the Issuer's unsecured loan portfolio, its largest asset, is not insured. Furthermore, the scope of insurance policies maintained by and available to the Issuer may vary from that of insurance policies typically maintained by financial institutions in more developed economies. Any uninsured loss or a loss in excess of insured limits could adversely affect the Issuer's business, financial condition, results of operations and prospects.

The Issuer may be adversely affected by changes in financial reporting standards.

From time to time, the International Accounting Standards Board (the "IASB") changes the international financial reporting standards issued by the IASB that govern the preparation of the Issuer's financial statements. These changes can be difficult to predict and could materially impact how the Issuer records and reports its financial condition and results of operations.

For example, the Issuer, like most entities that hold financial assets subject to credit losses, will be affected by the issuance of IFRS 9: Financial Instruments ("IFRS 9"), part of the IASB's project ultimately intended to replace the current IAS 39: Financial Instruments: Recognition and Measurement standard.

A finalised version of IFRS 9 was issued in July 2014, and incorporates requirements for classification and measurement, impairment, general hedge accounting and derecognition. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption

permitted (subject to local endorsement requirements). Like other financial institutions, the Issuer expects that IFRS 9 will significantly impact its financial statements, the full extent of which is still being considered.

Breaches by the Issuer of its regulatory obligations as a registered bank may inhibit or prevent its ability to conduct its banking operations.

All banking operations and various ancillary financial services in South Africa require certain licences and registrations from the various registrars that exercise their regulatory powers under the auspices of the FSB, the NCR and the Registrar of Banks. Although the Issuer will be registered as a bank before any New Debt Instruments are issued, the Registrar of Banks has the ability to cancel, suspend or revoke the registration or licence of the Issuer if it fails to comply with certain regulatory requirements. There is no assurance that the Issuer will be able to adhere to these regulatory requirements. A breach of the terms of a licence by any of the Issuer's entities or the failure to obtain a licence in the future could result in cash flow difficulties and penalties which may include temporary administration of the Issuer by the Registrar of Banks and/or fines imposed by the Registrar of Banks on the Issuer, which may, in turn, affect the Issuer's ability to fulfil its payment obligations, and would have a material adverse effect on its reputation, business, financial condition, results of operations and prospects. See "*The Banking Sector and Relevant Regulations in South Africa*".

Risks relating to the Notes and markets generally

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.

Regulatory action in the event the Issuer is failing, likely to fail or non-viable could materially adversely affect the value of the Notes.

On 13 August 2015, National Treasury, SARB and the FSB published for public comment a discussion document titled "*Strengthening South Africa's Resolution Framework for Financial Institutions*" which sets out the motivation, principles and policy proposals for a strengthened framework for the resolution of designated financial institutions in South Africa. The document includes a discussion of certain stabilisation powers that could be used by SARB to restore or maintain the critical functions of these designated financial institutions, including the power to assign losses of a failed institution to its shareholders and certain classes of creditors in order to recapitalise the failed institution. This power is referred to as "bail-in", which involves the divestment of shares from shareholders and, if necessary, the reduction or negation of an institution's creditors' claims to the extent necessary to restore the institution to financial viability.

Although South Africa does not currently have a "bail-in" regime in place, investors should note that SARB and National Treasury are, at the date of this Base Prospectus, in the process of drafting statutory legislation for a South African recovery and resolution regime that would make provision for statutory bail-in. If statutory bail-in is adopted in South Africa, the Issuer could be subject to such a regime if the relevant authorities were to determine that the Issuer is failing, likely to fail or non-viable. In this scenario, the exercise of this resolution power or any suggestion of any such exercise could materially adversely affect the value of any Notes and could lead to Noteholders losing some or all of the value of their investment in the Notes. In particular, prospective investors should note the risk of statutory loss absorption applicable to Tier 2 Notes set out in the risk factor headed "*Statutory Loss Absorption at the Point of Non-viability of the Issuer*" on page 37 – 39 of this Base Prospectus.

Lack of liquidity in secondary markets generally.

A prospective investor of the Notes should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary markets for instruments similar to the Notes. The Issuer cannot predict if and when these circumstances will change, and if and when they do, whether conditions of general market illiquidity for the Notes and instruments similar to the Notes will return in future.

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.

Although applications may be made for the Notes to be traded on the Market or on such other Financial Exchange(s) as may be determined by the Issuer, there is no assurance that such applications will be accepted, that any particular Tranche of Notes will be so listed or will remain listed or that an active trading market will develop.

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.

The Issuer 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.

Fixed rate notes are subject to interest rate risks.

An investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

No limitation on issuing securities or indebtedness.

There is no restriction on the amount of securities or indebtedness which the Issuer may issue or incur. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Notes on any of a winding-up, liquidation or curatorship of the Issuer.

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.

Credit Rating.

Tranches of Notes issued under the Programme and/or the Issuer may be rated or unrated. If a rating is assigned, such rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed herein, and other factors that may affect such Notes of the Issuer. 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.

Market perceptions concerning the instability of the Euro, the potential re-introduction of individual currencies within the Eurozone or the potential dissolution of the Euro entirely could adversely affect the value of the Notes.

Concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the Euro and the suitability of the Euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in more extreme circumstances, the possible dissolution of the Euro entirely. Should the Euro dissolve entirely, the legal and contractual consequences for holders of Euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Notes.

Definitive Notes or individual Certificates will not be issued in integral multiples of less than €100,000.

In relation to any issue of Notes that has a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive Definitive Notes or individual Certificates in respect of such holding (should Definitive Notes or individual Certificates be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Risks related to the structure of a 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:

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.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Notes issued at a substantial discount or premium.

The market values of securities issued at a substantial discount or premium from their nominal 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 maturity.

Unless in the case of any particular Tranche of Notes the relevant Final Terms or Pricing Supplement specify otherwise, the Issuer may redeem all outstanding Notes on the occurrence of certain tax events or regulatory events in accordance with the Terms and Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms or Pricing Supplement specify 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.

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.

Any redemption of Tier 2 Notes (which at the time of the relevant redemption qualify as Tier 2 Capital) prior to their Maturity Date requires the prior written approval of the Relevant Regulator.

Trading in the clearing systems.

In relation to Notes which have a minimum denomination and are tradable in the clearing systems in amounts above such minimum denomination which are smaller than it, should Notes in definitive form represented by an individual Certificate be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of individual Certificates unless and until such time as his holding becomes an integral multiple of the minimum denomination. If individual Certificates are issued, holders should be aware that individual Certificates which have a denomination which is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Modification and waivers.

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.

Change of law.

The Notes are governed by, and will be construed in accordance with, English law in effect the date of issue of the relevant Notes, except for Conditions 3(b) (*Status of the Tier 2 Notes*), 3(d) (*Statutory Loss Absorption of the Tier 2 Notes*), and 10(b) (*Events of Default relating to Tier 2 Notes*), which are governed by the laws of South Africa. No assurance can be given as to the impact of any possible judicial decision or change to English or South African law or administrative practice after the date of this Base Prospectus. Changes in

English or South African law may include, but, are not limited to, the introduction of a variety of statutory resolutions and loss absorption tools which may affect the rights of holders of securities issued by the Issuer, including 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 Relevant Regulator or pursuant to the Capital Regulations (as defined in the Conditions) or upon the occurrence of another trigger event. See “*Risks relating to the Tier 2 Notes*”.

Risks relating to the Tier 2 Notes

Notes may be subordinated to most of the Issuer’s liabilities.

The payment obligations of the Issuer under the Tier 2 Notes will rank behind claims of Depositors and Senior Creditors (including holders of Senior Notes). See Condition 3(b) (*Status of the Tier 2 Notes*) in respect of the Terms and Conditions of the Tier 2 Notes for a full description of subordination and the payment obligations of the Issuer under Tier 2 Notes.

Further, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation, under curatorship or is wound-up, the Issuer will be required to pay or discharge the claims of Depositors and Senior Creditors in full before it can make any payments in respect of such Tier 2 Notes. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under the relevant Tier 2 Notes.

No limitation on issuing securities or indebtedness which ranks senior to or pari passu to Tier 2 Notes.

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 Tier 2 Notes. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Tier 2 Notes on any of a winding-up, liquidation or curatorship of the Issuer.

Winding up, liquidation or curatorship and limited rights of acceleration for Tier 2 Noteholders.

If the Issuer is wound-up or dissolved or put into liquidation or curatorship (other than pursuant to a Solvent Reconstruction), Tier 2 Noteholders will not be entitled to any payments of the Tier 2 Notes until the claims of Depositors and Senior Creditors which are admissible in any such winding-up, liquidation or curatorship have been paid or discharged in full. If the Issuer does not have sufficient assets at the time of winding-up, dissolution, liquidation or curatorship to satisfy those claims, Tier 2 Noteholders will not receive any payment on the Tier 2 Notes. There is no limitation on the ability to issue debt securities in the future that would rank equal or senior in winding-up, dissolution, liquidation or curatorship to the Tier 2 Notes.

In addition, the rights of Tier 2 Noteholders are limited in certain respects. In particular, if the Issuer defaults on a payment of principal or interest due on any Tier 2 Notes for a period of ten days or more, such Tier 2 Noteholders may only 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. 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 Tier 2 Noteholder be able to declare (upon written notice) such Tier 2 Notes immediately due and payable (and in this regard, see “*Notes may be subordinated to most of the Issuer’s liabilities*” above).

Proceeds of Tier 2 Notes may qualify as Tier 2 Capital.

In order for the proceeds of the issuance of a Tier 2 Note to qualify as Tier 2 Capital, the Tier 2 Notes must comply with the Capital Regulations and such conditions (in addition to the conditions specified in the Capital Regulations) as may be prescribed by the Relevant Regulator for the proceeds of the issue of such Notes to

qualify as Tier 2 Capital pursuant to the approval granted by the Relevant Regulator (the “**Additional Conditions**”) (as applicable).

Under the laws of South Africa, the direct or indirect acquisition of a Tier 2 Note by a third party which is a bank or controlling company (all as defined in the Banks Act) or by a non-bank subsidiary of such a bank or controlling company, will be regarded as a deduction against the capital of the acquiring bank or controlling company in question, in an amount determined in accordance with and subject to 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 Relevant Regulator under the Regulations Relating to Banks. 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 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*” 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 represent part of the broader package of 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 (described 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” or “SLAR”);
- (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.

The trigger event is 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.

Regulation 38(14) of the Regulations Relating to Banks refers to the need for the Basel III Non-Viability Requirements to be reflected in the terms and conditions of a tier 2 instrument (defined below) unless a duly enforceable SLAR is in place. SARB has provided some clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in Guidance Note 2 of 2012 (*Matters related to the implementation of Basel III*), Guidance Note 7 of 2013 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) (“**Guidance Note 7**”), Circular 6 of 2013 (*Matters related to conditions for the issue of instruments or shares, the proceeds of which rank as Tier 2 capital*) and Circular 6 of 2014 (*Interpretation of specified conditions for the issuing of instruments or shares which rank as additional tier 2*

capital and tier 2 capital), and has indicated that it, together with National Treasury, is in the process of drafting legislation that will provide for a detailed SLAR. No official statement has however been made as to when the SLAR will be implemented in South Africa. However, on 13 August 2015, National Treasury, SARB and the FSB published for public comment a discussion document titled “*Strengthening South Africa’s Resolution Framework for Financial Institutions*” which sets out the motivation, principles and policy proposals for a strengthened framework for the resolution of designated institutions in South Africa. The document sets out how the special resolution framework for so-called “designated resolution institutions” will apply to banks, but highlights that further work will be undertaken to develop specific proposals on applying the special resolution framework to non-bank financial institutions, financial market infrastructure and financial conglomerates. The document is, at this stage, only a position paper and is intended to solicit public comment and serve as a basis for further industry discussions and preparation for the drafting of the Bank Resolution Bill.

SARB has also provided detail in relation to its approach to bank recovery and outlined the phased-in approach to be followed in relation to the development of bank resolution plans in Guidance Note 4 of 2012 (*Further guidance on the development of recovery and resolution plans by South African banks*). SARB has provided further guidance on the minimum requirements for the recovery plans of banks, branches of foreign banks and controlling companies in Directive 1 of 2015 (*Minimum requirements for the recovery plans of banks, controlling companies and branches of foreign institutions*). These Guidance Notes are broadly drafted and require further refinement, and market participants continue to discuss the Regulations Relating to Banks and the Guidance Notes with SARB. Paragraph 1.3 of Guidance Note 7 provides that SARB will continue to monitor international developments around loss absorbency requirements, and if necessary, will issue further guidance.

Guidance Note 7 requires banks to indicate, in the contractual terms and conditions of any tier 2 capital instruments (“**tier 2 instruments**”) issued, whether such instruments would be either written-off or converted into the most subordinated form of equity of the bank and/or its controlling company (such conversion, “**Conversion**”) at the occurrence of a trigger event determined at the Registrar of Bank’s discretion, as envisaged in Regulation 38(14)(a)(i) of the Regulations Relating to Banks. To the extent that any tier 2 instruments are issued prior to the commencement of the Statutory Loss Absorption Regime, such tier 2 instruments will have to contractually provide for write-off or Conversion at the discretion of the Relevant Regulator at the occurrence of a trigger event (as write-off and Conversion are understood and applied in terms of the regulatory framework applicable at the time of the issuance of such tier 2 instruments) in order to qualify as Tier 2 Capital.

Notwithstanding the above, paragraph 6.3 of Guidance Note 7 provides that banks have the option to elect to have the contractual terms and conditions of any tier 2 instruments issued prior to the implementation of the Statutory Loss Absorption Regime dealing with write-off and/or Conversion replaced with the Statutory Loss Absorption Regime upon its commencement.

The Conditions do not contain any contractual terms and conditions to enable write-off and/or Conversion in respect of the Tier 2 Notes, but are expressed to be subject to any provisions of South African law that implement the Statutory Loss Absorption Regime. See Condition 3(d) (*Statutory Loss Absorption of Tier 2 Notes*) in this regard. Until such time that a Statutory Loss Absorption Regime is implemented in South Africa, Notes issued under the Programme would not qualify as tier 2 instruments.

Subject to the implementation and content of the Statutory Loss Absorption Regime (which will apply to all Tier 2 Notes issued after its commencement date), Tier 2 Notes will be subject to write-off or Conversion upon the occurrence of the trigger event specified in writing by the Relevant Regulator. This may result in Tier 2 Noteholders losing some or all of their investment.

The exercise of any such power or discretion by the Relevant Regulator or any suggestion of such exercise could materially adversely affect the price or value of a Noteholder's investment in Tier 2 Notes and/or the ability of the Issuer to satisfy its obligations under such Tier 2 Notes. Additionally, Conversions will be subject to any restrictions on holding shares in a bank and/or a controlling company of a bank under South African law.

The investment in, and disposal, write off or Conversion of, Tier 2 Notes may have tax consequences in the hands of Tier 2 Noteholders, the Issuer or both.

The investment in, and disposal, write off or Conversion upon the occurrence of a Trigger Event of, Tier 2 Notes, may have considerable tax consequences in the hands of Tier 2 Noteholders, the Issuer or both. As any such potential consequences depend on various factors, prospective investors in Tier 2 Notes are strongly advised to consult their own professional advisers as to the tax consequence of investing in Tier 2 Notes, and particularly as to whether a disposal, write off or Conversion of Tier 2 Notes will result in an income tax liability.

Risks relating to Renminbi-denominated Notes

Notes denominated in RMB ("CNH Notes") may be issued under the Programme. CNH Notes contain particular risks for potential investors.

Renminbi is currently not freely convertible. There are significant restrictions on remittance of Renminbi into and outside the PRC, which may adversely affect the liquidity of CNH Notes and the ability of the Issuer to source Renminbi outside the PRC to service the CNH Notes.

Renminbi is not freely convertible at present. The government of the PRC continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually but there can be no assurance that liberalisation of control over cross-border remittance of Renminbi will continue in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under the CNH Notes.

Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi denominated banking services to Hong Kong residents and specified business customers. The People's Bank of China ("PBoC") has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. In July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the "Settlement Agreement") between the PBoC and Bank of China (Hong Kong) Limited (the "RMB Clearing Bank") to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no

longer any limit on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong. In addition, PBoC has now established Renminbi clearing and settlement systems with financial institutions in other major global financial centres (each also a “**RMB Clearing Bank**”), including London, Frankfurt and Singapore, to further internationalise the Renminbi.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the settlement arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC, which could affect the liquidity of the CNH Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its CNH Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the CNH Notes is subject to exchange rate risks.

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC, by international political and economic conditions and by many other factors. In addition, although the Issuer’s primary obligation is to make all payments of interest and principal or other amounts with respect to the CNH Notes in Renminbi, in certain circumstances, and if so specified, the Conditions allow the Issuer to make payment in U.S. Dollars at the prevailing spot rate of exchange. All payments of interest and principal will be made with respect to the CNH Notes in Renminbi. As a result, the value of these Renminbi payments in U.S. dollars or other foreign currencies may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of investment in U.S. dollars or other applicable foreign currencies will decline. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the CNH Notes.

Payments in respect of the CNH Notes will only be made to investors in the manner specified in such CNH Notes.

All payments to investors in respect of the CNH Notes will be made solely by (i) when the CNH Notes are represented by a Global Note or a Global Certificate, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and procedures of Euroclear and Clearstream Luxembourg or any alternative clearing system, or (ii) when the CNH Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer is not required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

KEY FEATURES OF THE PROGRAMME

This overview should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information contained elsewhere in this Base Prospectus. This overview may not contain all the information that prospective investors should consider before deciding to invest in the Notes. Accordingly, any decision by a prospective investor to invest in the Notes should be based on a consideration of this Base Prospectus as a whole, including any documents incorporated by reference. Prospective investors should read this entire Base Prospectus carefully, including the financial statements and related notes, *pro forma* financial information and the information set out under the heading “*Risk Factors*”.

Issuer	K2014176899 (SOUTH AFRICA) LIMITED to change its name to African Bank Limited (Registration Number 2014/176899/06) by the date any Notes are issued hereunder.
Description	Euro Medium Term Note Programme.
Initial Programme Amount	Up to U.S.\$6,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Fiscal Agent, Transfer Agent and Calculation Agent	Citibank N.A., London Branch.
Registrar	Citigroup Global Markets Deutschland AG.
Method of Issue	The Notes may be issued on a syndicated or non-syndicated basis or without the involvement of a manager or dealer. The Notes may be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of Notes (each, a “ Tranche ”) issued on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.
Issue Price	Notes may be issued at any price, as specified in the Final Terms. The price and amount of the Notes to be issued under the Programme will be determined at the time of issue in accordance with prevailing market conditions.
Form of Notes	The Notes may be Bearer Notes or Registered Notes. Each Tranche of Bearer Notes will be represented on issue by a Temporary Global Note if (i) Definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “ <i>Selling Restrictions</i> ”). Otherwise such

	Tranche will be represented by a Permanent Global Note.
	Each Tranche of the Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as " Global Certificates ".
Clearing Systems	Euroclear and Clearstream, Luxembourg or as otherwise specified in the relevant Final Terms.
Currencies	Notes may be denominated in U.S. Dollars, Euros, Swiss Francs, Sterling, Renminbi or in any other currency or currencies, subject to compliance with all relevant laws, regulations, directives and central bank requirements.
Maturities	<p>Subject to compliance with all relevant laws, regulations, directives and/or central bank requirements, any maturity, and in relation to Tier 2 Notes, such minimum maturities as may be required from time to time by the applicable Capital Regulations (as defined in the Conditions) that are specified in the relevant Final Terms.</p> <p>Subject to the applicable Capital Regulations, as at the date of this Base Prospectus Tier 2 Notes will have a minimum maturity of five years and one day after the issue date.</p>
Specified Denomination	<p>Definitive Notes will be in such denominations (each a "Specified Denomination") as may be specified in the relevant Final Terms.</p> <p>In the case of any Notes which are to be admitted to trading on a regulated market, or offered to the public, within the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).</p> <p>Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") will have a minimum denomination of £100,000 (or its equivalent in another currency).</p>
Fixed Rate Notes	Fixed Rate Notes (as defined in the Conditions) will bear fixed interest payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes	<p>Floating Rate Notes (as defined in the Conditions) will bear interest determined separately for each Series as follows:</p> <p>(i) on the same basis as the floating rate under a notional interest</p>

rate swap transaction in the relevant specified currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR as adjusted for any applicable margin.

Interest Periods will be specified in the relevant Final Terms.

Zero Coupon Notes

Zero Coupon Notes (as defined in the Conditions) may be issued at their nominal amount or at a discount to it and will not bear interest.

Interest Periods, Interest Accrual Periods and Interest Rates

The length of the Interest Periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of Interest Accrual Periods permits the Notes to bear interest at different rates in the same Interest Period. All such information will be set out in the relevant Final Terms.

Redemption

The relevant Final Terms will specify the basis for calculating the redemption amounts payable.

Subject to the applicable Capital Regulations and any instructions received from the Registrar of Banks, Tier 2 Notes will have a minimum period to maturity determined in accordance with the Capital Regulations relating to such Tier 2 Notes as set out in the Final Terms. For so long as the applicable Capital Regulations so require, Tier 2 Notes (which at the time of the relevant redemption qualify as Tier 2 Capital) 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 Relevant Regulator and in accordance with the Additional Conditions (if any), even when an Event of Default has occurred and is continuing. Further, in relation to Tier 2 Notes (which at the time of the relevant redemption qualify as Tier 2 Capital), any such redemption shall be further subject to the Capital Regulations.

Optional Redemption

Subject to “*Redemption*” above, the Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

Tax Redemption

Except as described in “*Optional Redemption*” above and “*Redemption for Regulatory Reasons*” below and subject, as described in “*Redemption*” above, early redemption will only be permitted for tax reasons as described in Condition 6(c) (*Redemption for Taxation Reasons*).

Redemption for Regulatory

Except as described in “*Optional Redemption*” and “*Tax*

Reasons	<i>Redemption</i> ” above and subject to, as described in “ <i>Redemption</i> ” above, early redemption of Tier 2 Notes in whole or in part is permitted at the option of the Issuer if a Regulatory Event occurs and while it is continuing as described in Condition 6(d) (<i>Redemption of Tier 2 Notes for Regulatory Reasons</i>) if so specified in the relevant Final Terms.
Status of the Senior Notes	Subject as set out in “ <i>Negative Pledge</i> ” below, the Senior Notes are unsecured obligations of the Issuer which rank <i>pari passu</i> and without any preference among themselves and, subject as aforesaid, with all other unsecured and unsubordinated indebtedness of the Issuer, present and future, all as set out in Condition 3(a) (<i>Status of the Senior Notes</i>).
Status of the Tier 2 Notes	The Tier 2 Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank (i) <i>pari passu</i> and without any preference among themselves, (ii) save for those that have been accorded preferential rights by law, at least <i>pari passu</i> with all other subordinated obligations of the Issuer (other than any subordinated obligations which rank or are expressed to rank senior to the Issuer’s obligations under the Tier 2 Notes) including but not limited to subordinated obligations in the form of other Tier 2 Notes and Tier 2 Capital, whether issued before the date of issue of the Tier 2 Notes or thereafter, (iii) ahead of and in priority to all Junior Obligations and (iv) behind in priority to all claims of Depositors and Senior Creditors, all as described in Condition 3(b) (<i>Status of the Tier 2 Notes</i>).
Negative Pledge	The Senior Notes will have the benefit of a negative pledge as described in Condition 4 (<i>Negative Pledge</i>).
Cross-Acceleration	The Senior Notes contain a cross-acceleration provision in respect of Material Indebtedness (as defined in Condition 18 (<i>Definitions</i>)) and including for this purpose any assumption in respect of Material Indebtedness).
Ratings	<p>Tranches of Notes may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms.</p> <p>Whether or not each credit rating applied for in relation to a Series of Notes will be issued by S&P will be disclosed in the Final Terms. S&P is established in the European Union and is registered under the CRA Regulation.</p> <p>A credit 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.</p>
Taxation	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of South Africa, unless the withholding is required by Applicable Law (as defined in the Conditions). In that event, the Issuer shall, subject to its right to early redeem following a Tax Event (as described in “ <i>Tax</i>

Redemption” above) (and subject to the exceptions in Condition 8 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

Governing Law

The Notes (other than Conditions 3(b) (*Status of the Tier 2 Notes*), 3(d) (*Statutory Loss Absorption of Tier 2 Notes*) and 10(b) (*Events of Default relating to Tier 2 Notes*), which are governed by the laws of South Africa)) and any non-contractual obligations arising out of or in connection with the Notes will be governed by and construed in accordance with English law.

Enforcement of Notes in Global Form

In the case of Global Notes and Global Certificates, individual investors’ rights against the Issuer will be governed by a deed of covenant dated 29 March 2016 (the “**Deed of Covenant**”), a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Listing and Trading

Applications have been made for the Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the Market or will be made as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted. PD Exempt Instruments will be issued by way of a pricing supplement. Information contained in this Base Prospectus regarding PD Exempt Instruments shall not be deemed to form part of this Base Prospectus and the UK Listing Authority has neither approved nor reviewed information contained in this Base Prospectus in connection with PD Exempt Instruments.

Selling Restrictions

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the EEA, the United Kingdom, China, Hong Kong, Singapore, South Africa, the Republic of Italy and Japan, see “*Subscription and Sale*”.

Bearer Notes will be issued in compliance with United States Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”) unless (i) the relevant Final Terms states that the Notes are issued in compliance with United States Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “**C Rules**”), or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances

will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Risk Factors

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under “*Risk Factors*” above.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus and the documents incorporated by reference herein are not historical facts but constitute “forward-looking statements”. This Base Prospectus contains certain forward-looking statements in various sections, including, without limitation, under the headings “*Risk Factors*”, “*Capitalisation and Indebtedness*”, “*Selected Financial and Other Information*”, “*Introduction to the New HoldCo Group*”, “*Description of the Issuer*” and in Annexure A to this Base Prospectus. The Issuer may from time to time make written or oral forward-looking statements in reports to its shareholders, holders of debt securities (including Noteholders) and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of the Issuer’s plans, objectives or goals, including those related to its strategy, products and services;
- statements of future economic performance and financial position and results of operations;
- statements of assumptions underlying such statements; and
- any other statements other than statements of historical fact.

Forward-looking statements that may be made by the Issuer from time to time (but that are not included in this Base Prospectus) may include projections, forecasts, estimates or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as “aim”, “anticipates”, “believes”, “continue”, “could”, “estimates”, “expects”, “forecast”, “guidance”, “intends”, “may”, “plans”, “potential”, “predict”, “project”, “targets”, “will”, “would”, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, projections, forecasts, estimates and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Factors that could cause actual results, performances or achievements to differ materially include, but are not limited to, those discussed under the heading “*Risk Factors*”. This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the aforementioned factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Issuer operates. Such forward-looking statements speak only as of the date of this Base Prospectus, being the date on which they are made, and are not subject to any continuing obligations under any guidelines issued by the London Stock Exchange. Accordingly, except as required by applicable law, rule or regulation, the Issuer:

- expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements in this Base Prospectus (including the documents incorporated by reference herein) to reflect any change in its expectations or any change in events, conditions or circumstances on which these forward-looking statements are based; and
- does not undertake any obligation to update or revise any of them, whether as a result of new information or future events or otherwise,

provided that the Issuer will update this Base Prospectus as required by, and in accordance with, the Prospectus Rules of the FCA. The Issuer does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Fiscal and calendar years

The Issuer's financial year ends on 30 September. In this Base Prospectus, 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) the Issuer's financial year is referred to as the "year ended or year ending 30 September [YEAR]" or as "Financial Year [YEAR]" or as "FY[last 2 digits of YEAR]". For example, the 12 month period ended 30 September 2015 is referred to as Financial Year 2015 or FY15.

Presentation of Financial Information

In this Base Prospectus, all financial information referred to is presented in Rand which is the functional currency applicable to the entities referred to below. In addition, it has been assumed in this Base Prospectus that the Transaction Effective Date will occur on 1 April 2016 for all components of the Restructuring. For practical purposes however the Transaction Effective Date is targeted to occur on 4 April 2016 or such earlier or later date as the Curator may announce.

This Base Prospectus contains historical, *pro forma* and forecast financial information. *Pro forma* financial information has been prepared for illustrative purposes only. Furthermore, because of its nature, the *pro forma* financial information addresses a hypothetical situation and therefore does not represent the Issuer's actual financial position or results.

Historical Financial Information

African Bank

Extracts from the audited financial statements as at and for Financial Year 2015 (which includes comparative information to the restated financial information for Financial Year 2014), which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("**IFRS**"), comprising statements of financial position, profit or loss, other comprehensive income, changes in equity and cash flows, are set out in Annexure A1 to this Base Prospectus.

The full set of such annual financial statements including the notes thereto prepared in accordance with IFRS are, together with the audited financial statements as at and for Financial Year 2014, incorporated by reference in this Base Prospectus and are available on www.africanbank.co.za or <https://www.africanbank.co.za/about-us/investors>.

The Issuer

The Issuer's dormant historical audited financial statements as at 30 September 2015 are set out in Annexure A2 to this Base Prospectus.

Pro Forma Financial Information

The Issuer

Pro forma statements of financial position and profit or loss for the Issuer for Financial Year 2015 are set out in Annexure A3 to this Base Prospectus, prepared and presented assuming an illustrative Transaction Effective Date of:

- 30 September 2015 for the purposes of preparing the statement of financial position;

- 1 October 2014 for the purposes of preparing the statement of profit or loss.

The Reporting Accountant's report on the *pro forma* financial information for the Issuer is contained in Annexure A6 to this Base Prospectus.

Forecast Financial Information

Forecast financial information has been drawn applying the base case assumptions set out in Annexures A4 and A5 to this Base Prospectus.

African Bank

The forecast abridged statements of financial position and profit or loss for African Bank for the six months from 1 October 2015 to 31 March 2016 are set out in Annexure A4 to this Base Prospectus.

The Issuer

The forecast abridged statements of financial position, profit or loss and cash flows for the Issuer from 1 April 2016 to 30 September 2018 are contained in Annexure A5 to this Base Prospectus. This information includes the formation of the Issuer's forecast balance sheet as at an assumed Transaction Effective Date of 1 April 2016 (selected parts of which are also contained in the section of this Base Prospectus headed "*Selected Financial and Other Information*").

Currency

In this Base Prospectus, the following currency terms are used:

- "South African Rand", "Rand", "R" or "ZAR" refers to the lawful currency of South Africa;
- "\$", "U.S. Dollar", "USD" or "U.S.\$" refers to the lawful currency of the United States; and
- "SFr", "Swiss franc" or "CHF" refers to the lawful currency of Switzerland.

Rounding

Certain data in this document, including financial, statistical and operating information, has been rounded. As a result of the rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

Market Data

In certain instances in this Base Prospectus, the Issuer has included its own estimates, assessments, adjustments and judgements in preparing market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third-party source, to a certain degree subjective. Without prejudice to the Issuer's responsibility statement on page 2 of this Base Prospectus, while the Issuer believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it approximately reflects the industry and the markets in which it operates, there is no assurance that Issuer's own estimates, assessments, adjustments and judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The Issuer has obtained certain statistical and market information that is presented in "*Risk Factors*", "*Description of the Issuer*" and "*The Banking Sector and Relevant Regulations in South Africa*" in this Base Prospectus from the third-party sources including:

- the IMF;

- SARB; and
- Statistics South Africa.

The Issuer takes responsibility for the accurate reproduction of such information and, as far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Without prejudice to the responsibility statement in the preceding sentence, the Issuer advises prospective investors to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Issuer's estimates are based on such third-party information. The Issuer has not independently verified the figures, market data or other information on which third parties have based their studies.

GLOSSARY OF TERMS

Terms used in this Base Prospectus shall bear the meanings set out in this section except to the extent that they are separately defined elsewhere or clearly inappropriate from the context.

“**ABIL**” means African Bank Investments Limited (registration number 1946/021193/06), a public company incorporated in accordance with the laws of South Africa and listed on the JSE (placed in business rescue on 5 June 2015);

“**ABIL Group**” means ABIL together with its Subsidiaries;

“**Adjusted For CPI**” means the adjustment of an amount to be determined or paid in respect of an Index-Linked Instrument with reference to the difference between the agreed reference point of current inflation and the original agreed reference point of inflation of the instrument;

“**African Bank**” means African Bank Limited (under Curatorship) (registration number 1975/002526/06) (to be renamed “**Residual Debt Services Limited**” on or around the Transaction Effective Date), a bank licensed and registered under the Banks Act as at the date of this Base Prospectus, a public company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of ABIL;

“**African Bank DMTN Programme**” means the African Bank ZAR25 billion Domestic Medium Term Note Programme registered with the JSE;

“**African Bank EMTN Programme**” means the African Bank USD6 billion Euro Medium Term Note programme listed on the London Stock Exchange and with certain series of notes under such programme listed on the SIX;

“**Banks Act**” means the Banks Act 94 of 1990 (as amended);

“**Base Case**” means the base case scenario assumed for purposes of preparing the Base Case Forecasts, as described in the section “*Selected Financial and Other Information – The Base Case used to prepare the Base Case Forecasts*”;

“**Base Case Period**” means 1 April 2016 to 30 September 2018;

“**Base Case Forecasts**” means forecast financial information in respect of the Issuer, including the forecast statements of financial position, statements of profit or loss and the forecast cash flow statement for the Issuer, during the Base Case Period, as set out in the sections “*Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts*”, read with Annexure A5 to this Base Prospectus;

“**Basel III**” means a set of minimum global standards for banks issued by the Basel Committee on Banking Supervision in December 2010 and revised in July 2011, which includes, amongst other things, changes to capital requirements and the introduction of a Leverage Ratio and liquidity standards;

“**Bilateral Corporate Deposits**” means collectively all unsubordinated corporate deposits (i.e. deposits that are not Retail Deposits) and other unsubordinated debt instruments not issued under the African Bank DMTN Programme or the African Bank EMTN Programme, comprising predominantly:

- PNs, NCDs and other similar instruments issued in dematerialised form and settled through the STRATE system;
- PNs and NCDs issued in certificated form and settled directly with the bearer thereof; and
- bilateral corporate deposits (other than PNs and NCDs) including call deposits, and fixed and floating rate term deposits that are not Retail Deposits;

“Business Day” means any day other than a Saturday, Sunday or an official public holiday in South Africa;

“Capitalised Call Deposits” means Existing Senior Debt Instruments where the holder has the right to accumulate and capitalise accrued interest, or to demand payment thereof (in whole or in part) at any time;

“Capital Regulations” means 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 their controlling companies;

“Cash Payment” means a cash payment to be made by African Bank:

- in respect of Exchanged Debt Instruments which are Existing Senior Debt Instruments (or Other Senior Claims) equal to 10 per cent. of the capital or nominal amount of the relevant instrument on the day immediately preceding the Transaction Effective Date (provided that such amount will be as Adjusted For CPI in respect of Index-Linked Instruments and in respect of Capitalised Call Deposits and certain other instruments where interest has been capitalised or rolled-up, such Cash Payment will be calculated as described in the relevant Exchange Offers); and
- in respect of Exchanged Debt Instruments which are Existing Subordinated Debt Instruments, an aggregate amount in respect of all such instruments of ZAR165 million together with interest thereon of JIBAR plus 725 basis points accruing from 1 December 2015 and thereafter deducting the relevant Participation Percentage of the Subordinated Advisory Fees therefrom.

If the relevant payment date occurs after the Transaction Effective Date, interest shall accrue at JIBAR (or in the case of a Cash Payment in respect of USD denominated EMTNs at LIBOR, or in the case of a Cash Payment in respect of CHF denominated EMTNs at 0 per cent.) with effect from (and including) the Transaction Effective Date up to (but excluding) the relevant payment date;

“CD Status” means the contractual default status of a loan: a loan at CD1 means that one instalment is in arrears, whereas CD4 means that the aggregate amount in arrears in respect of the loan exceeds the sum of four instalments;

“Cell Captive Shares” means the specific and separate class of cell owner ordinary shares in Guardrisk issued to InsureCo, which will enable InsureCo to participate in the risk and economic result of the agreed insurance business introduced to Guardrisk by the Issuer;

“CET Target” means a targeted Common Equity Tier 1 Capital ratio of 28 per cent. as at the First Maturity Date, subject to the various principal assumptions set out in Annexure A5 to this Base Prospectus;

“Clearstream” means Clearstream Banking, *société anonyme*;

“Common Equity Tier 1 Capital” means common equity tier 1 capital for purposes of the Capital Regulations;

“Companies Act” means the Companies Act 71 of 2008 (as amended) of South Africa;

“Consortium” means SARB, GEPR and the Participating Banks;

“Coupon Service Payment” means in respect of each Serviced Instrument which is an Exchanged Debt Instrument:

- (i) 90 per cent. of the total amount of interest accrued on that Serviced Instrument in the ordinary course (i.e. excluding any default or penalty interest) from (and including) the Last IPD up to (but excluding) the Transaction Effective Date, provided that in calculating such accrued interest amount, each Missed Coupon shall be added to the principal amount of the Serviced Instrument (i.e.

compounded) with effect from the relevant Missed Coupon Date (and in the case of Capitalised Call Deposits, interest shall continue to compound after the Last IPD in accordance with the terms of the deposit); minus

(ii) that Serviced Instrument's Participation Percentage of the Senior Advisory Fees; plus

(iii) if the relevant payment date occurs after the Transaction Effective Date, interest on item (i) minus item (ii) above shall accrue at JIBAR (or in the case of USD denominated EMTNs at LIBOR, or in the case of CHF denominated EMTNs at 0 per cent.) with effect from (and including) the Transaction Effective Date up to (but excluding) the relevant payment date;

“Curator” means the person appointed by the Minister of Finance in terms of section 69 of the Banks Act as the curator of African Bank being, as at the date of this Base Prospectus, Mr Thomas Winterboer;

“Curatorship” means the curatorship of African Bank announced by SARB on 10 August 2014 in terms of section 69 of the Banks Act;

“Curatorship Date” means 10 August 2014, being the date on which the Minister of Finance placed African Bank under Curatorship;

“Development Finance Institutions” means International Finance Corporation, Société de Promotion et de Participation pour la Coopération Économique S.A. and Deutsche Investitions-Und Entwicklungsgesellschaft mbH;

“DMTN” means domestic medium term note;

“DMTN Programme” means the Issuer’s ZAR25 billion Domestic Medium Term Note Programme to be registered with the JSE;

“EHL” means Ellerine Holdings Limited (registration number 1968/013402/06), a public company incorporated in accordance with the laws of South Africa and a wholly-owned direct Subsidiary of ABIL (placed in business rescue on 21 August 2014);

“EHL Group” means EHL and its Subsidiaries;

“Ellerine Furnishers” means Ellerine Furnishers Proprietary Limited (registration number 1969/002687/07), a private company incorporated in accordance with the laws of South Africa and a wholly-owned direct Subsidiary of EHL (placed in business rescue on 7 August 2014);

“EMTN” means euro medium term note;

“Euroclear” means Euroclear Bank S.A./N.V.;

“Exchanged Debt Instruments” means Existing Debt Instruments that will be exchanged in terms of the Exchange Offers, being Senior DMTNs, Subordinated DMTNs, Senior EMTNs and any other instruments in respect of which the relevant Exchange Offer has been launched by African Bank and the offer of those instruments for exchange has been accepted by African Bank;

“Exchanged Funder” means Senior Funders and Subordinated Funders whose Existing Debt Instruments are (or will be) exchanged in terms of the Exchange Offers;

“Exchange Offers” means the Senior Exchange Offers and the Subordinated Exchange Offers;

“Existing Debt Instruments” means the Existing Senior Debt Instruments, Other Senior Claims and Existing Subordinated Debt Instruments;

“Existing Senior Debt Instruments” means collectively, Senior DMTNs, Senior EMTNs, Bilateral Corporate Deposits and the Facility Debt, but specifically excluding all Existing Subordinated Debt Instruments;

“Existing Subordinated Debt Instruments” means collectively all debt raised by African Bank where the terms applicable thereto describe such debt as subordinated in certain circumstances, including:

- any DMTNs issued (and titled) as subordinated notes under the African Bank DMTN Programme;
- any unlisted debentures issued on a bilateral basis, referred to in their terms as being subordinated in certain circumstances; and
- subordinated debt owed to the Development Finance Institutions in terms of subordinated loan facilities,

collectively referred to as “subordinated bonds, debentures and loans” in the notes to the financial statements of African Bank;

“Extension Period” means the period comprising (i) 24 months plus (ii) the number of days during the period commencing on and including the Curatorship Date and ending on (but excluding) the Transaction Effective Date;

“Extraordinary Resolution” means in respect of (i) African Bank DMTNs (both senior and subordinated), a resolution passed at a meeting (duly convened and quorate) of the holders of a series of such DMTNs 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 is duly demanded, then by a majority voting percentage of not less than 66.67 per cent. of the total vote exercised at such meeting on a poll, and (ii) African Bank EMTNs, a resolution passed at a meeting (duly convened and quorate) of the holders of such EMTNs, by a majority consisting of not less than 75 per cent. of the votes exercised on a poll, approving amendments to the terms of the African Bank EMTNs to facilitate their exchange for New Senior Debt Instruments, Senior Stub Instruments and the Cash Payment together with the payment of the Coupon Service Payment;

“Face Value” means the amount outstanding in respect of a claim at a certain point in time, including all principal and interest accrued in the ordinary course, whether capitalised or not (but specifically excludes any default or penalty interest), which amount shall in the case of Index-Linked Instruments always be Adjusted For CPI;

“Facility Debt” means the term loan in the amount of approximately ZAR450 million owing by African Bank in terms of an unsubordinated loan facility agreement dated on or about 24 February 2014;

“Fair Value Adjustment” means the IFRS fair value adjustment in respect of the Good Book, as contemplated in the section *“Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts”*;

“Financial Exchange” means any financial or stock exchange(s) on which any of the Existing Debt Instruments were listed as at the Curatorship Date and, if the context so requires, shall include any financial or stock exchange(s) on which New Senior Debt Instruments and/or New Subordinated Debt Instruments may be listed;

“Financial Markets Act” means the Financial Markets Act 19 of 2012 of South Africa;

“First Maturity Date” means the day after the second anniversary of the Transaction Effective Date, being the date upon which the first New Senior Debt Instruments mature;

“**FSB**” means the South African Financial Services Board established in terms of the Financial Services Board Act 97 of 1990 (as amended);

“**GEPF**” means the Government Employees Pension Fund, a fund established in terms of the Government Service Pension Act, 1973 and renamed by the Government Employees Pension Law, 1996, represented by the PIC;

“**Good Bank Business**” means the Good Book, the Operational Assets, the Retail Deposits and the Operational Liabilities, all to be transferred to the Issuer on the Transaction Effective Date together with the Top-Up Cash Amount, if the Restructuring is implemented;

“**Good Bank Cell**” means the specific and contractually ring-fenced cell which will consist of all the insurance business introduced by the Issuer to Guardrisk, and to which cell the Cell Captive Shares will be linked;

“**Good Book**” means the Selected Loans and the New Loans, (i) having a gross book value of ZAR29.0 billion as at 30 September 2015 and (ii) a forecast gross book value of approximately ZAR29.2 billion as at 1 April 2016;

“**Guardrisk**” means Guardrisk Life Limited, (registration number 1999/013922/06), a public company incorporated in accordance with the laws of South Africa and a registered long-term insurer conducting cell captive insurance business in terms of South African law and a wholly owned Subsidiary of MMI Group Limited;

“**Hedging Arrangements**” means the new hedging contracts and facilities entered into by African Bank during the Interim Period;

“**Hedging Liabilities**” means all liabilities (whether actual or contingent, and including associated margin payment amounts and collateral liabilities) arising in terms of the Hedging Arrangements, all of which will be transferred to the Issuer on the Transaction Effective Date, in accordance with sections 54 and 69(2C) of the Banks Act;

“**IFRS**” means International Financial Reporting Standards;

“**Index-Linked Instrument**” means an instrument in respect of which the final redemption amount and interest payments are Adjusted For CPI;

“**Insurance Funding Facility**” means the loan facility to be established initially between African Bank and New HoldCo for purposes of funding the Good Bank Cell, which loan facility will be transferred to the Issuer on the Transaction Effective Date as part of the Good Bank Business;

“**InsureCo**” means African Insurance Group Limited (previously K2014177424 (South Africa) Limited), registration number 2014/177424/06, a newly formed public company incorporated in accordance with the laws of South Africa, a wholly owned Subsidiary of New HoldCo, and the company that will own the Cell Captive Shares;

“**Interim Period**” means the period from (and including) the Curatorship Date up until (but excluding) the Transaction Effective Date;

“**Issuer Balance Sheet**” means the forecast take-on balance sheet of the Issuer (statement of financial position) as at 1 April 2016, as discussed in more detail in the section “*Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts – the Issuer Balance Sheet*”, read with Annexure A5 to this Base Prospectus;

“Issuer Indemnity” means the ZAR3 billion 8 year indemnity issued by Residual Bank to the Issuer (and guaranteed by SARB) pursuant to which Residual Bank (and failing which, SARB) will indemnify the Issuer in respect of all losses and liabilities suffered or incurred by the Issuer in respect of the Good Bank Business which arise from facts, events, circumstances, acts and/or omissions that exist on the day before the Transaction Effective Date (but excluding losses and liabilities that are or have been taken into account in the calculation of the Top-Up Cash Amount);

“JIBAR” means the Johannesburg Interbank Agreed Rate for a three month period which for the purposes of determining amounts payable where a payment date is later than the Transaction Effective Date, will be determined by African Bank in its sole discretion on the Transaction Effective Date;

“JSE” means 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;

“King Code of Governance Principles” or **“King Code”** means the King Report on Governance for South Africa 2009 and the King Code of Governance Principles 2009 issued by the King Committee on 1 September 2009 and together commonly referred to as King III;

“Last IPD” means in respect of a Serviced Instrument, the last date on which interest became due and payable in the ordinary course in respect of such instrument prior to the Curatorship Date (save that in respect of Capitalised Call Deposits it means the last date on which interest was paid or capitalised prior to the Curatorship Date);

“LCR” means the liquidity coverage ratio, being the ratio of high quality liquid assets to total net liquidity outflows over 30 days, as determined in accordance with Basel III;

“Leverage Ratio” means the ratio of total Tier 1 Capital and reserve funds to total assets (on-and-off balance sheet), as determined in accordance with Basel III;

“LIBOR” means the three month London Interbank Offer Rate for USD as determined by African Bank in its sole discretion on the Transaction Effective Date;

“Minister of Finance” means the South African Minister of Finance;

“Minister of Trade and Industry” means the South African Minister of Trade and Industry;

“Missed Coupon” means an amount of interest that became due and payable in respect of a Serviced Instrument in the ordinary course (not as a result of default), but that was not paid, which (where relevant) shall be determined as though the ordinary course contractual maturity of such Serviced Instrument was extended until (but excluding) the Transaction Effective Date (i.e. as though the ordinary course interest due dates continued after the ordinary course contractual maturity date of the Serviced Instrument);

“Missed Coupon Date” means the date upon which a Missed Coupon became (or would have become) due and payable in the ordinary course;

“National Treasury” means the National Treasury of South Africa;

“NCA” means the National Credit Act 34 of 2005 (as amended);

“NCDs” means negotiable certificates of deposit;

“NCR” means National Credit Regulator established in terms of the NCA;

“New Debt Instruments” means New Senior Debt Instruments and New Subordinated Debt Instruments in the Issuer;

“**New HoldCo**” means African Bank Holdings Limited (previously K2014176855 (South Africa) Limited), registration number 2014/176855/06, a newly formed public company incorporated in accordance with the laws of South Africa, being the ultimate holding company of the New HoldCo Group;

“**New HoldCo Group**” means New HoldCo and its wholly-owned Subsidiaries: (i) InsureCo and (ii) the Issuer;

“**New HoldCo Shares**” means ordinary shares with a par value of ZAR0.01 in New HoldCo;

“**New Loans**” means all new loans to customers advanced by African Bank during the Interim Period, to the extent that they are still in existence (i.e. not repaid) as at the Transaction Effective Date (including all new credit card advances);

“**New NCR Regulations**” means the Regulations on Review of Limitations on Fees and Interest Rates published under the NCA by the South African Department of Trade and Industry on 6 November 2015;

“**New Senior Debt Instruments**” means in respect of:

- each Existing Senior Debt Instrument, a corresponding instrument issued by the Issuer on the same principal economic terms as the relevant Existing Senior Debt Instrument, save in respect of tenor and principal amount (provided that (i) in the case of term loans arising from drawn facilities with third party banks, the nature of the instrument shall change from a contractual term loan to a corporate deposit and (ii) in the case of a Capitalised Call Deposit, the nature of the instrument shall change to a fixed term deposit in respect of which all capital will be repayable on the First Maturity Date and all accrued interest will be paid monthly in arrear with effect from the Transaction Effective Date); and
- in respect of Other Senior Claims, a corporate deposit in the Issuer offered to the Other Senior Creditors;

“**New Subordinated Debt Instruments**” means new Basel III compliant Tier 2 Capital debt instruments in the Issuer;

“**Offer Date**” means the date on which the first Exchange Offers were launched;

“**Operating Float**” means the operating float to be built up, maintained and replenished by Residual Bank to discharge and provide for its anticipated run-off expenses and day-to-day operational costs after the Transaction Effective Date, the amount of which shall be determined by Residual Bank from time to time (it being recorded for clarity that an initial amount of ZAR500 million is budgeted for this purpose);

“**Operational Assets**” means all the operational assets of African Bank, including its fixed assets, immovable property, assets arising in terms of the Hedging Arrangements (including collateral cash), other Operational Contracts, statutory assets, intellectual property and certain intangible assets;

“**Operational Contracts**” means certain day-to-day operational and trading contracts of African Bank specified in the Sale of Business Agreement, as determined by the Curator, including the Insurance Funding Facility and the Hedging Arrangements (but specifically excluding any other hedging or facility agreements);

“**Operational Liabilities**” means certain specified day-to-day trading and operational liabilities of African Bank as at the Transaction Effective Date, as determined by the Curator, arising from the Operational Contracts to be transferred to the Issuer (including the Hedging Liabilities, but excluding, for the avoidance of doubt, any remaining liabilities arising out of any other hedging or facility agreements) which have not been settled in the ordinary course. Operational Liabilities will be transferred in full (without any deduction) to the Issuer on the Transaction Effective Date in accordance with sections 54 and 69(2C) of the Banks Act, whilst

other sundry operational liabilities not specified for transfer will be treated as Other Senior Claims, if timeously proven;

“Other Senior Claim” means an unsubordinated claim against African Bank that has not been discharged as at the Transaction Effective Date and: (i) which is not an Existing Senior Debt Instrument, Existing Subordinated Debt Instrument, a Retail Deposit or an Operational Liability; and (ii) the existence of which has been proven, at least *prima facie*, as at the date upon which the Curator submits his report to the Minister of Finance for purposes of obtaining consent for the Restructuring in terms of sections 69(2C) and 54 of the Banks Act;

“Other Senior Creditors” means holders of Other Senior Claims;

“Participating Banks” means Absa Bank Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited, and insofar as the subscription for ordinary shares in New HoldCo is concerned, may include any of their respective Subsidiaries or other group entities;

“Participation Percentage” means the percentage of Senior Advisory Fees or Subordinated Advisory Fees (as the case may be) attributable to an Exchanged Debt Instrument (excluding Other Senior Claims), calculated:

- in the case of an Existing Subordinated Debt Instrument, by expressing the Face Value of the relevant Exchanged Debt Instrument as at the Curatorship Date as a percentage of the aggregate Face Values on the Curatorship Date of all the Exchanged Debt Instruments that participate in the Subordinated Exchange Offer; and
- in the case of an Existing Senior Debt Instrument, by expressing the Face Value of the relevant Exchanged Debt Instrument as at the Curatorship Date as a percentage of the aggregate Face Values on the Curatorship Date of all the Exchanged Debt Instruments that participate in the Senior Exchange Offer (excluding Other Senior Claims),

provided that in performing this calculation, the Face Value of Index-Linked Instruments shall be Adjusted For CPI as at (but excluding) the Curatorship Date;

“PIC” means Public Investment Corporation SOC Limited (Registration number 2005/009094/06), a public company incorporated in accordance with the laws of South Africa, and acting in its capacity as representative for GEPPF;

“PNs” means promissory notes;

“POPI Act” means the Protection of Personal Information Act 4 of 2013 (as amended);

“Registrar of Banks” means the Registrar of Banks designated under section 4 of the Banks Act;

“Regulations Relating to Banks” means the Regulations promulgated under section 90 of the Banks Act (published on 12 December 2012 in Government Gazette No. 35950) as amended by Government Notice R309 in Government Gazette 38682 of 10 April 2015, as such Regulations may be amended, supplemented or replaced from time to time and any other prevailing capital adequacy regulations promulgated under the Banks Act and applicable to the Issuer, as such regulations may be amended, supplemented or replaced from time to time;

“Relevant Regulator” means the Registrar of Banks in terms of the Banks Act and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer;

“Remaining Portion” means the Face Value of an Existing Subordinated Debt Instrument as at (but excluding) the Transaction Effective Date (as Adjusted For CPI in the case of Index-Linked Instruments), minus the sum total of:

- the Transferable Portion, plus any interest accrued as at the Transaction Effective Date on New Subordinated Debt Instruments being delivered in exchange for all or any part of the Transferable Portion; and
- the Cash Payment made or to be made to the holder of such instrument, calculated without any deduction of Subordinated Advisory Fees or the addition of interest in respect of any payments made after the Transaction Effective Date;

“Repo Rate” means the rate at which SARB lends money to commercial banks in South Africa;

“Reporting Accountant” means Deloitte & Touche, registered auditors, and situated at Deloitte & Touche Place, The Woodlands, 20 Woodlands Drive, Woodmead, Sandton, South Africa, 2196, (Private Bag X5, Gallo Manor, 2052);

“Residual Bank” means African Bank after the Transaction Effective Date, the sole business and purpose of which shall be to collect the Residual Book and any other cash accruing to it, and to distribute such proceeds (net of costs) to its creditors and which will be renamed “Residual Debt Services Limited” on or around the Transaction Effective Date;

“Residual Book” means the loan portfolio retained by Residual Bank after the Transaction Effective Date: (i) having a gross book value of ZAR15.8 billion as at 30 September 2015 (excluding the written-off book), and (ii) projected to have a gross book value of approximately ZAR11.2 billion as at 1 April 2016;

“Restructuring” means the transaction relating to the resolution of African Bank, a summary of which is contained in the section headed “*Curatorship of African Bank and Summary of Restructuring*”;

“Retail Deposit Obligations” means obligations in respect of Retail Deposits;

“Retail Deposits” means deposits received by African Bank before the Transaction Effective Date, where such deposits were made in the name of natural persons, and where African Bank relied on the identity numbers or passport numbers of such natural persons, together with other personal documentation required in terms of the Financial Intelligence Centre Act 38 of 2001 (as amended), in order to confirm that such depositors were natural persons (and including, for the avoidance of doubt, any positive balances on credit card facilities extended to natural persons);

“Risk Weighted Assets” means risk weighted assets determined by applying risk weights to balance sheet assets and off-balance sheet assets and commitments according to the relative credit risk of the counterparty. The risk weightings are stipulated under the Regulations Relating to Banks;

“Sale of Business Agreement” means the sale of business agreement concluded between African Bank and the Issuer pursuant to which African Bank will sell and transfer the Good Bank Business to the Issuer and the Issuer will issue the New Debt Instruments;

“SARB” means the South African Reserve Bank established in terms of the SARB Act;

“SARB Act” means the Reserve Bank Act 90 of 1989 (as amended);

“SARB Guarantee” means the secondary guarantee by SARB of the indemnity obligations of Residual Bank in terms of the Issuer Indemnity, it being recorded for purposes of clarity that: (i) SARB will only be liable as guarantor in terms of the SARB Guarantee in circumstances where Residual Bank is unable for whatever reason to make the payment as primary obligor under the Issuer Indemnity; and (ii) SARB's cumulative

maximum exposure in terms of the SARB Guarantee and the SARB Indemnity Facility combined shall not exceed ZAR3 billion;

“SARB Indemnity Facility” means the secured indemnity facility in the amount of ZAR3 billion provided to Residual Bank by SARB with effect from the Transaction Effective Date to enable Residual Bank to discharge any potential payment obligations arising in terms of the Issuer Indemnity until the expiration of the Issuer Indemnity;

“SARB Transaction Loan” means the secured term loan provided by SARB to Residual Bank, available for draw-down immediately before the Transaction Effective Date, for purposes of funding the Top-Up Cash Amount, the Cash Payments, the Coupon Service Payments, establishing the Operating Float and discharging other Transaction Effective Date payment obligations of African Bank (including any top-up or true-up payment due by African Bank after the Transaction Effective Date in respect of the Top-Up Cash Amount), to the extent that African Bank’s own cash is insufficient;

“Securities Act” means the U.S. Securities Act of 1933, as amended;

“Selected Loans” means a list of loans identified by the Consortium that had a gross book value of approximately ZAR29 billion as at the Curatorship Date, to the extent that such Selected Loans are still in existence (i.e. not repaid) as at the Transaction Effective Date and which includes all advances made in terms of credit card accounts as at the Curatorship Date, to the extent that the relevant credit card facilities are still active as at the Transaction Effective Date;

“Senior Advisory Fees” means the advisory fees and expenses actually payable to White & Case (together with any applicable VAT and disbursements) in connection with the Restructuring of approximately ZAR14.8 million;

“Senior DMTNs” means senior unsubordinated notes issued in terms of the African Bank DMTN Programme;

“Senior EMTNs” means senior unsubordinated notes issued in terms of the African Bank EMTN Programme;

“Senior Exchange Offers” means the offers that enable Senior Funders (and Other Senior Creditors) to exchange their Existing Senior Debt Instruments (or Other Senior Claims) for:

- New Senior Debt Instruments in the Issuer;
- Senior Stub Instruments in Residual Bank; and
- a Cash Payment,

and to receive the Coupon Service Payment (in the case of Serviced Instruments only);

“Senior Funders” means the holders of Existing Senior Debt Instruments;

“Senior Notes” means Senior Notes as defined in Condition 18 of the Terms and Conditions;

“Senior Stub Instrument” means a new instrument to be issued by Residual Bank in partial settlement of the Senior Exchange Offer;

“Serviced Instrument” means an Existing Senior Debt Instrument issued on terms that require the coupon to be paid in full at regular intervals during the term, and includes (for the avoidance of doubt) Index-Linked Instruments in respect of which the coupon is paid at regular intervals and any Capitalised Call Deposits;

“SIX” means the SIX SIS AG, the Swiss Securities Services Corporation in Olten, Switzerland;

“**Stangen**” means the Standard General Insurance Company Limited (registration number 1948/029011/06), a public company incorporated in accordance with the laws of South Africa and operating under a long-term insurance licence, being a wholly owned direct Subsidiary of ABIL;

“**STRATE**” means Strate Proprietary Limited (registration number 1998/022242/07), a private company incorporated in accordance with the laws of South Africa, being a registered central securities depository in terms of the Financial Markets Act, and which manages the electronic clearing and settlement system for transactions that take place on the JSE, as well as off-market trades;

“**Stub Instruments**” means the Senior Stub Instruments and the Subordinated Stub Instruments;

“**Subordinated Advisory Fees**” means the advisory fees and expenses actually payable to Allen & Overy, Baker & McKenzie and Lazard (inclusive of any applicable VAT and disbursements) in relation to the Restructuring of approximately ZAR58 million;

“**Subordinated Exchange Offers**” means the non-renounceable offer that enable Subordinated Funders to:

- exchange the Transferable Portion of the Existing Subordinated Debt Instruments for New Subordinated Debt Instruments;
- exchange the Remaining Portion of the Existing Subordinated Debt Instruments for Subordinated Stub Instruments; and
- receive a Cash Payment;

“**Subordinated Funders**” means the holders of Existing Subordinated Debt Instruments;

“**Subordinated Stub Instrument**” means a new instrument to be issued by Residual Bank in partial settlement of the Subordinated Exchange Offer;

“**Subsidiary**” has the meaning determined in accordance with section 3 of the Companies Act;

“**Tier 1 Capital**” means tier 1 capital for purposes of the Capital Regulations;

“**Tier 2 Capital**” means tier 2 capital for purposes of the Capital Regulations;

“**Top-Up Cash Amount**” means the cash amount to be transferred by African Bank to the Issuer as part of the sale of the Good Bank Business for purposes of balancing: (i) the assets of the Issuer (including goodwill) and (ii) the liabilities issued and/or assumed (including liabilities arising in terms of the New Debt Instruments) by the Issuer as at the Transaction Effective Date, which amount is forecast to be ZAR7.8 billion, subject to verification, review and potential adjustment in terms of a true-up process to be completed after the Transaction Effective Date. This amount excludes collateral cash and statutory assets that are transferred to the Issuer separately and is before any reallocation of surplus statutory assets on formation of the Issuer Balance Sheet;

“**Total Capital Adequacy Ratio**” means total capital (as contemplated in the Capital Regulations) divided by Risk Weighted Assets, expressed as a percentage;

“**Transaction Effective Date**” means the date of implementation of the Restructuring, targeted as being on or about 4 April 2016 or such earlier or later date as the Curator may announce, provided that the Curator shall not be entitled to extend the Transaction Effective Date beyond 30 May 2016 without the written consent of all of the Consortium members. For purposes of the Base Case Forecasts the Transaction Effective Date is assumed to be 1 April 2016;

“Transferable Portion” means the portion of the Face Value of each Existing Subordinated Debt Instrument to be exchanged on a Rand-for-Rand basis for New Subordinated Debt Instruments, which portion is calculated in terms of the formula:

$$TP = (x/y) \times 1\,485\,000\,000$$

where:

TP = the Transferable Portion of the Existing Subordinated Debt Instrument, rounded down to the nearest full cent;

x = the Face Value of the relevant Existing Subordinated Debt Instrument as at the Offer Date (Adjusted For CPI in the case of Index-Linked Instruments); and

y = the aggregate Face Value of all the Existing Subordinated Debt Instruments as at the Offer Date (Adjusted For CPI in the case of Index-Linked Instruments); and

“VAT” means value-added tax.

CURATORSHIP OF AFRICAN BANK AND SUMMARY OF RESTRUCTURING

Introduction

African Bank was placed under Curatorship on 10 August 2014 following 12 to 18 months of increasing concern over the rapid deterioration in the cash liquidity available to African Bank.

In the months leading up to Curatorship, African Bank's parent company, ABIL, announced a series of financial losses prompted by significantly deteriorating profitability within African Bank as a result of substantially higher provisions arising from non-performing loans and declining collections from its loan book. In addition, African Bank's sister company and business partner, Ellerine Furnishers, was placed in business rescue on 7 August 2014 in accordance with Chapter 6 of the Companies Act. EHL, the holding company of Ellerine Furnishers, was placed in business rescue on 21 August 2014. At that stage African Bank had advanced a loan of approximately ZAR1.492 billion to EHL and the prospects of recovery of that loan were low.

African Bank is a wholly owned Subsidiary of the JSE-listed bank controlling company ABIL. African Bank specialises in the provision of unsecured lending in the form of personal loans and credit cards to middle and lower income customers in South Africa.

Events leading to the Curatorship of African Bank

The below is a summary of certain of the key events prior to the Curatorship of African Bank.

- African Bank experienced rapid growth in its loan book after 2007. The average loan size increased from ZAR4 710 in 2006 to ZAR20 346 in 2014 and the average term increased from 21 months in 2006 to 54 months in 2014. African Bank encountered substantial difficulties in the 2013 and 2014 Financial Years and the quality of its loan book began to deteriorate. Credit impairments increased materially and there was a significant and rapid erosion of its capital base during 2013/2014.
- For the 18 months immediately prior to Curatorship, ABIL and African Bank reported additional bad and doubtful debt provisions and deteriorating profits. On 6 August 2014 the board of directors of ABIL announced the need to raise a further ZAR8.5 billion of new capital only eight months after the ZAR5.5 billion rights issue to shareholders in December 2013. The further capital required was substantial compared to ABIL's market capitalisation of about ZAR10.3 billion at the time. Repeated profit warnings and requests for substantial capital during the 18 months preceding Curatorship resulted in a loss of investor confidence in the ABIL Group.
- The EHL Group, which was acquired in 2008 for the purpose of providing additional routes to the market for the group's loan and insurance products, continued to make losses in 2014. The performance of the EHL Group put additional pressure on African Bank to provide credit to EHL customers to promote sales, and on ABIL and African Bank to fund the losses of the EHL Group. The EHL losses weakened the capital base of the ABIL Group and impacted upon its ability to support African Bank. Efforts by ABIL management to dispose of EHL (and in particular its main operating Subsidiary, Ellerine Furnishers) did not yield any positive results and the best offer received would have required ABIL to contribute an additional ZAR3 billion to EHL before it could be transferred at nil consideration. The management of African Bank concluded that further funding of EHL in terms of an increased intra-group loan facility was unjustified and this resulted in the Ellerine Furnishers' board of directors applying successfully for business rescue on 7 August 2014. EHL was placed in business rescue on 21 August 2014.
- African Bank's funding model relied extensively on wholesale market funding and its deteriorating performance made it increasingly difficult to renew and raise funding in the debt capital markets.

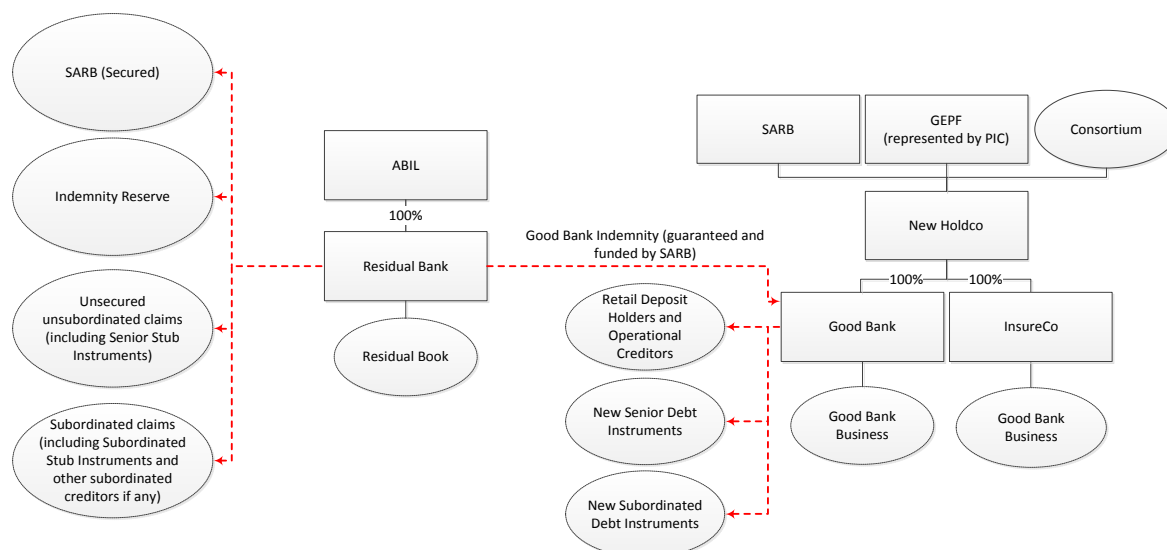
African Bank's inability to renew or replace wholesale funding upon maturity contributed to its growing liquidity crisis.

THE RESTRUCTURING

The Restructuring to be implemented on the Transaction Effective Date in essence entails:

- (i) the creation of the Issuer to acquire the Good Bank Business, and
- (ii) the settlement of participating Senior Funders, Other Senior Creditors and Subordinated Funders through a completed Exchange Offer process (see “*Curatorship of African Bank and Summary of Restructuring – Executive Summary – Exchange Offers*” below) that will result in those who have accepted an Exchange Offer (or those who hold Senior DMTNs, Subordinated DMTNs or Senior EMTNs and are to be exchanged by Extraordinary Resolution despite the fact that they may not have elected to participate in the Exchange Offers) acquiring New Debt Instruments in the Issuer, Stub Instruments in Residual Bank and a Cash Payment. Senior Funders and Other Senior Creditors, where applicable, holding Serviced Instruments which are exchanged will also receive a Coupon Service Payment.

The end result of the Restructuring is illustrated by the organogram below:



Executive summary

The principal terms of the Restructuring to be implemented on the Transaction Effective Date can be summarised as follows:

- **New HoldCo Group:** the New HoldCo Group will be established and capitalised as set out in “*Description of the Issuer – Equity and Capital in the Issuer*” relating to the ZAR10 billion capitalisation of the Issuer by the Consortium;
- **Exchange Offers:** On 4 February 2016 African Bank launched the Senior Exchange Offer to the Senior Funders (and to some Other Senior Creditors) and the Subordinated Exchange Offer to the Subordinated Funders. The Exchange Offers have the following effect for those funders who support the Exchange Offers or who are exchanged by Extraordinary Resolution:

- Existing Senior Debt Instruments (and Other Senior Claims) will be exchanged for New Senior Debt Instruments in the Issuer, Senior Stub Instruments in Residual Bank and a Cash Payment. In addition, holders of Serviced Instruments will receive 90 per cent. of the interest accrued in respect of their Serviced Instruments since the Last IPD, minus such Serviced Instrument's Participation Percentage of the Senior Advisory Fees; and
- Existing Subordinated Debt Instruments will be exchanged for: (i) New Subordinated Debt Instruments in respect of the Transferable Portion; and (ii) a Subordinated Stub Instrument in respect of the Remaining Portion; and (iii) a Cash Payment. Under the terms of the Subordinated Exchange Offer, ZAR1.485 billion of the Existing Subordinated Debt Instruments will be exchanged for Basel III compliant Tier 2 Capital debt instruments in the Issuer (being the New Subordinated Debt Instruments). The portion of each Existing Subordinated Debt Instrument that qualifies to be exchanged for New Subordinated Debt Instruments is referred to as the Transferable Portion of that Existing Subordinated Debt Instrument.

On 2 March 2016, the Curator announced that the Restructuring had received the overwhelming support of the creditors of African Bank, following the substantial completion of the Exchange Offer process.

In summary:

- More than 50% by value of the Existing Senior Debt Instruments elected to make an Exchange Offer to African Bank, meaning that the minimum acceptance threshold for the Restructuring to proceed had been attained. In aggregate, the percentage of those holding Existing Senior Debt Instruments who elected to make an Exchange Offer was 95.40% of eligible creditors by value.
- More than 75% by value of the Existing Subordinated Debt Instruments elected to make an Exchange Offer to African Bank, meaning that the Restructuring for Existing Subordinated Debt Instruments may proceed. In aggregate, the percentage of those holding Existing Subordinated Debt Instruments who elected to make an Exchange Offer was 99.99% of eligible creditors by value.
- For each series of notes issued under the African Bank DMTN Programme and each series of notes issued under the African Bank EMTN Programme the relevant Extraordinary Resolutions were passed, so that if the Restructuring proceeds, all parties holding such notes will participate in the Exchange Offer.

The Exchange Offers will take effect on the Transaction Effective Date - i.e. although the relevant New Debt Instruments may be delivered to investors shortly after the Transaction Effective Date, interest on these instruments will accrue with effect from the Transaction Effective Date except in relation to the Tier 2 Notes which will accrue interest from 1 December 2015.

- **Transfer of Good Bank Business:** The Issuer will acquire the Good Bank Business from African Bank on the Transaction Effective Date. The transaction involves: (i) the transfer of the Good Book; (ii) the transfer of the Operational Assets and Operational Contracts; (iii) the transfer of the Top-Up Cash Amount; (iv) the assumption by the Issuer of the Retail Deposit Obligations and Operational Liabilities; and (v) the issue by the Issuer of New Senior Debt Instruments and New Subordinated Debt Instruments to African Bank in consideration for the Good Bank Business. After implementation of the sale (and particularly the issue of the New Debt Instruments to African Bank), African Bank will be in a position to discharge its settlement obligations in terms of the Exchange Offers. The transfer of the Good Bank Business is structured on a basis that gives the Issuer a reasonable prospect of achieving the CET Target (in this regard, please see the section headed “*Selected Financial and Other Information – The Issuer Balance Sheet and Base Case Forecasts*”, read with Annexure A5 to this Base Prospectus for Base Case Forecasts).

CAPITALISATION AND INDEBTEDNESS

Capital adequacy in the Issuer

Following implementation of the Restructuring (assuming a Transaction Effective Date of 1 April 2016 which, for practical purposes, is targeted to occur on 4 April 2016 or such earlier or later date as the Curator may announce), the Base Case Forecasts indicate that the Issuer will have the following ratios as at the Transaction Effective Date:

- a Common Equity Tier 1 Capital ratio of 27.9 per cent.;
- a Tier 2 Capital ratio of 6.3 per cent.;
- a Total Capital Adequacy Ratio of 34.1 per cent.; and
- a Leverage Ratio of >12 per cent.

See “*Description of the Issuer – Equity and Capital in the Issuer –Forecast Ratios during the Base Case Period*” for the forecast regulatory capital adequacy, risk weighted asset requirements, and Leverage Ratios of the Issuer during the Base Case Period, based on the Base Case Forecasts in the section headed “*Selected Financial and Other Information*” read with Annexure A5 to this Base Prospectus.

Description of certain indebtedness

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

The Domestic Medium Term Note Programme

At the same time as establishing the Programme, the Issuer is also establishing a ZAR25 billion Domestic Medium Term Note Programme (the “**DMTN Programme**”).

The DMTN Programme documents contain representations, warranties and undertakings common to programmes and 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 DMTN Programme. The DMTN 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, licence, 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.

Proposed Issuances under the Programme and the DMTN Programme

The following series of notes under this Programme and the DMTN Programme are proposed to be issued by the Issuer to African Bank on or about the Transaction Effective Date. These notes will be transferred by African Bank to holders of African Bank Senior DMTNs and Senior EMTNs :

DMTNs to be issued under the DMTN Programme

Size at issue (ZAR)	Coupon	Original maturity date	New maturity date (original maturity date as extended by the Extension Period)*
360 000 000	11.50 per cent.	15 March 2015	7 November 2018
420 000 000	9.50 per cent.	29 September 2014	24 May 2018
400 000 000	Variable	15 March 2015	7 November 2018
304 000 000	Variable	29 September 2014	24 May 2018
800 000 000	Variable	8 March 2015	31 October 2018
222 400 000	Variable	11 October 2016	5 June 2020
567 200 000	Variable	9 October 2015	3 June 2019
152 800 000	Variable	9 October 2017	3 June 2021
640 000 000	Variable	25 March 2016	18 November 2019
800 000 000	Variable	21 June 2016	14 February 2020
408 000 000	Variable	25 September 2015	20 May 2019
392 000 000	Variable	25 September 2018	20 May 2022
600 000 000	Inflation indexed	15 March 2015	7 November 2018
521 600 000	Inflation indexed	11 October 2016	5 June 2020
1 600 000 000	Inflation indexed	18 February 2018	13 October 2021
480 000 000	Inflation indexed	19 July 2020	13 March 2024

**These new maturity dates are determined on the assumption that the Transaction Effective Date is 4 April 2016. If the Transaction Effective Date is not 4 April 2016, these dates will be adjusted accordingly.*

All of the above debt instruments constitute Senior Notes under the DMTN Programme and will be unsecured and issued in accordance with the Terms and Conditions. Interest in respect of all the above Senior Notes will commence on the Transaction Effective Date.

In addition, ZAR1.485 billion of Tier 2 Notes will be issued on or about the Transaction Effective Date under the DMTN Programme.

Such Tier 2 Notes will:

- have a maturity of 10 years from the Transaction Effective Date, and shall not be callable for the first five years and one day following the issue date thereof (i.e. the Issuer could seek redemption after five years and one day after the date of issue thereof, subject to compliance with the Regulations Relating to Banks and the consent of the Registrar of Banks);
- constitute ZAR payment obligations;
- be compliant with the necessary rules and regulations to be a Tier 2 Capital instrument in line with Basel III requirements as set out in the Banks Act, the Regulations Relating to Banks and applicable directives and guidance notes;
- be compulsorily convertible into New HoldCo Shares at the discretion of the Relevant Regulator if the Relevant Regulator determines in accordance with the Capital Regulations that the Issuer would

otherwise become non-viable, as contemplated in regulation 38(14)(a)(i) of the Regulations Relating to Banks; and

- be floating rate instruments with a coupon of JIBAR plus 725 basis points. Interest on the New Subordinated Debt Instruments will accrue from 1 December 2015 until the Transaction Effective Date and thereafter interest will accrue quarterly. All interest accrued as at the Transaction Effective Date will be settled by the Issuer on the Transaction Effective Date. If payment of such accrued interest is not made or procured to the relevant clearing systems or Exchanged Funder, as the case may be, on the Transaction Effective Date, interest at JIBAR shall accrue with effect from (and including) the Transaction Date up until (but excluding) the date on which payment is made to the relevant clearing system or Exchanged Funder (as the case may be), and shall be payable by Residual Bank.

EMTNs to be issued under the Programme

Size at issue (USD)	Coupon	Original maturity date	New maturity date (original maturity date as extended by the Extension Period)*
280 000 000	6.0 per cent.	15 June 2016	8 February 2020
280 000 000	8.125 per cent.	24 February 2017	19 October 2020
25 600 000	2.4 per cent.	17 March 2015	9 November 2018
(CHF)			
120 000 000	4.75 per cent.	24 July 2015	18 March 2019
100 000 000	4.0 per cent.	9 November 2016	4 July 2020
84 000 000	5.5 per cent.	11 October 2017	5 June 2021
140 000 000	5.0 per cent.	28 August 2018	22 April 2022

**These new maturity dates are determined on the assumption that the Transaction Effective Date is 4 April 2016. If the Transaction Effective Date is not 4 April 2016, these dates will be adjusted accordingly.*

All of the above EMTNs constitute Senior Notes under the Programme and will be unsecured. Interest in respect of all the above EMTNs will commence on the Transaction Effective Date.

Bilateral Corporate Deposits

The Issuer will issue bilateral corporate deposits in an aggregate amount of approximately ZAR11.1 billion to African Bank on or about the Transaction Effective Date and these will be transferred by African Bank to holders of African Bank Bilateral Corporate Deposits.

The Issuer has created a set of standard common terms and conditions that will regulate the non-economic conditions applicable to each category of bilateral corporate deposits issued by the Issuer in terms of the Restructuring, which (non-economic) common terms will cater for the following categories of debt instruments:

- PNs, NCDs and other similar instruments issued in dematerialised form and settled through the STRATE system;
- PNs and NCDs issued in certificated form and settled directly to the bearer/holder thereof; and
- other bilateral corporate deposits (i.e. other than PNs and NCDs), including call deposits and fixed and floating rate term deposits.

In addition to the common terms and conditions, each category of bilateral corporate deposits will have terms and conditions which are specific to their category.

SELECTED FINANCIAL AND OTHER INFORMATION

The selected information set out below, as read with Annexure A5 to this Base Prospectus, comprises forecast financial information and includes the forecast statements of financial position and statements of profit or loss and the forecast cash flow statements for the Issuer during the period 1 April 2016 to 30 September 2018 (the “**Base Case Period**”).

Annexure A also includes *pro forma* financial information. Any and all *pro forma* financial information has been prepared for illustrative purposes only. Furthermore, because of its nature, *pro forma* financial information addresses a hypothetical situation and therefore does not represent the actual financial position or results of the Issuer.

The Base Case used to prepare the Base Case Forecasts

The Base Case Forecasts have been prepared on the basis of a base case scenario. The principal assumptions relied on in creating this base case scenario are set out in Annexure A5 to this Base Prospectus.

The Base Case Forecasts, which include the material improvements that have been made to the credit and provisioning policies and operating model of the Issuer (as discussed in the section headed “*Description of the Issuer*”) demonstrate a reasonable possibility that the performance of the Issuer will improve after the Transaction Effective Date and that it will be well positioned to become a profitable business from FY17 onwards. However, it is envisaged that the business model of the Issuer will be further enhanced by the new management team to exploit the strong capital and liquidity position of the Issuer, and the Base Case Forecasts do not include any potential upside that may arise from new strategies and product evolution that may be implemented after the Transaction Effective Date. The Base Case Forecasts also do not include the impact of any potential recapitalisation of the Issuer by New HoldCo from any profits derived by InsureCo from the Cell Captive Shares. The Base Case Forecasts do however include the anticipated impact of the New NCR Regulations with effect from 1 May 2016. A list of the principal assumptions and financial information used to prepare the Issuer Balance Sheet and Base Case Forecasts is included in Annexure A5 as read with Annexure A4 to this Base Prospectus. The “*Risk Factors*” section also details some of the risk factors that could potentially affect the Good Bank Business and result in the Base Case Forecasts not being achieved.

Please note that although the Issuer Balance Sheet and the Base Case Forecasts have been prepared in good faith, forecasts are inherently subjective, uncertain and unpredictable in nature. If the key assumptions used to prepare the Base Case turn out to be incorrect in any material respect, the actual outcome will be worse or better than the Base Case Forecasts included in this Base Prospectus. The Base Case assumptions are also not an exhaustive list of all the assumptions that have been made. Potential investors should form their own view and, if required, obtain their own advice in respect of the potential future performance of the Issuer.

The Base Case Forecasts have been properly prepared on the basis of the principal assumptions set out in Annexure A5 to this Base Prospectus and the basis of accounting used in their preparation is consistent with the accounting policies of African Bank and will also be consistent with the accounting policies of the Issuer. The Base Case Forecasts have been prepared on a basis comparable with the historical financial information of African Bank taking into consideration the effects of the Restructuring, i.e. the separation of the Good Book, the restructuring of the debt through the issue of New Debt Instruments, the ZAR10 billion equity contribution by the Consortium and the implementation of the service level agreement between the Issuer and Residual Bank.

The Issuer Balance Sheet and Base Case Forecasts

The Issuer Balance Sheet

The Base Case, based on the various principal assumptions listed in Annexure A5 to this Base Prospectus, indicates a reasonable prospect of the Issuer achieving the CET Target.

In a Base Case scenario, and subject to the various Base Case principal assumptions listed in Annexure A5 to this Base Prospectus, the Issuer will commence its operations with a forecast opening statement of financial position represented by column G in the table below:

	A	B	C	D	E	F	G
ZAR million	African Bank (before the Restructuring)	Adjustments to arrive at Good Bank Business Restructuring	Good Bank before the Business Restructuring	Exchange Offers	VAT incurred in respect of acquired assets	Equity Injection	The Issuer Balance Sheet
Assets							
Short-term deposits and cash (including collateral cash)	20 769	(7 996)	12 773	1 645		10 000	24 418
Statutory assets	3 162		3 162	(1 645)			1 517
Derivatives and other assets	5 823		5 823		116		5 939
Net advances	24 936	(4 853)	20 083	93			20 176
Loans to affiliated companies	152		152				152
Property and equipment	400		400	105			505
Intangible assets	68		68	63			131
Goodwill				2 055	(331)		1 724
Total assets	55 310						54 562
Liabilities and Equity							
Collateral liabilities	4 993		4 993				4 993
Other liabilities	1 049	(84)	965				965
Fair value derivatives liabilities .	32		32				32
Bonds and other long-term funding	52 179	(52 179)		36 588			36 588
Subordinated bonds, debentures and loans	5 306	(5 306)		1 559			1 559
Loans from affiliated companies	671	(134)	537				537
Deferred tax liability				103			103
Total liabilities.....	64 230						44 777
Ordinary share capital and premium	14 404	(14 404)				10 000	10 000
Reserves and accumulated losses	(23 324)	23 324			(215)		(215)
Total equity (capital and reserves).....	(8 920)						9 785
Total liabilities and equity	55 310						54 562

In preparing the Issuer Balance Sheet, the African Bank statement of financial position has been forecast forward from 30 September 2015 to 31 March 2016, and a Transaction Effective Date of 1 April 2016 has been assumed. Further detail in respect of the financial information used to prepare the Issuer Balance Sheet is included in Annexures A4 and A5 to this Base Prospectus. An actual take-on balance sheet for the Issuer will be prepared and published as soon as reasonably and practicably possible after the Transaction Effective Date taking into consideration the review process of both the Issuer and the Residual Bank required prior to such publication.

The Issuer Balance Sheet (column G in the table above) is derived as follows:

- the African Bank assets and liabilities that will not be transferred to the Issuer on the Transaction Effective Date are deducted (column B) from the African Bank statement of financial position (column A). These are essentially the assets and liabilities that will remain behind in Residual Bank;
- in terms of IFRS, a fair value adjustment is applied to the Good Book and the property and equipment transferred to the Issuer, including the African Bank brand (column D). In accordance with IFRS 3 Business Combinations, the Issuer is viewed as the acquirer of the Good Bank Business and it is required to perform a fair value exercise on the assets and liabilities acquired. The assumptions that underlie the fair value calculation in column D are explained in more detail in Annexure A5 to this Base Prospectus. This component of the Issuer Balance Sheet is discussed in further detail below in the section headed “*The fair value adjustment*”. The fair value of the New Debt Instruments is assumed to be equal to their nominal value on the date of issue;
- a goodwill amount of ZAR1.7 billion (column G), indicating the difference between the fair value of the assets acquired and the liabilities assumed in return (see in the section below headed “*The goodwill*”) after adjusting for VAT assumed to be payable in respect of the acquired assets (see below);
- it is assumed that ZAR331 million of VAT will be payable in respect of the acquisition of the Good Bank Business (column E). VAT may become due on the property and equipment, intangibles and goodwill acquired by the Issuer (the remainder of the assets are exempt from VAT). It is assumed that ZAR116 million of VAT will be recoverable from the South African Revenue Service, which is broadly in line with the historic apportionment of VAT in African Bank. The potentially irrecoverable portion is recorded in reserves at the Transaction Effective Date and recycled as a charge through the statement of profit or loss in year one. The parties to the Sale of Business Agreement have applied to the South African Revenue Service for certain VAT rulings that, if successful, will reduce the amount of VAT incurred and/or the irrecoverable portion thereof; and
- the ZAR10 billion equity to be provided by the Consortium is reflected in column F.

The fair value adjustment

It is currently estimated that the forecast fair value of the Good Book will be ZAR93 million more than the net book value (the “**Fair Value Adjustment**”). It is required in terms of IFRS that the Fair Value Adjustment must be unwound over the period of the assets to which it relates. The Base Case Forecasts below accordingly include, within the forecast statement of profit or loss, an annual cost to unwind the Fair Value Adjustment, which results in an impact on the forecast profitability of the Issuer.

The goodwill

The amount by which the total liabilities assumed and/or issued by the Issuer on the Transaction Effective Date exceed the fair value of the Issuer’s assets and cash is reflected as goodwill in the Issuer Balance Sheet. The value of the assets and the Top-Up Cash Amount have been agreed, subject to a review and adjustment mechanism, between the Issuer and the Curator on a basis that will afford the Issuer, in a Base Case scenario

(and subject to the various Base Case assumptions set out in Annexure A5 to this Base Prospectus) a reasonable prospect of achieving the CET Target. The interaction between these components of the Issuer Balance Sheet will result in a forecast goodwill amount of ZAR1.7 billion as at 1 April 2016.

A detailed fair value exercise will be conducted after the Transaction Effective Date to determine the fair value of the assets and liabilities as at that date. The outcome of this exercise will determine the ultimate amount of goodwill in the Issuer Balance Sheet as at the Transaction Effective Date.

IFRS does not require goodwill to be amortised. Goodwill must however be assessed annually for impairment. The current provisional assessment of the forecast carrying value of goodwill in terms of the Base Case assumptions indicates that goodwill may have to be impaired after the Transaction Effective Date and therefore it has been assumed that goodwill will be impaired. The position will be re-assessed after the Transaction Effective Date.

Base Case Forecasts for the Issuer

The Issuer forecast statement of financial position up until FY18

Abridged Statement of Financial Position

	Forecast as at 1 April 2016	Forecast as at September 2016	Forecast as at September 2017	Forecast as at September 2018
ZAR million				
Assets				
Short-term deposits and cash	15 681	15 586	14 832	10 459
Foreign Cash	3 744	7 193	12 055	14 489
Collateral cash	4 993	3 807	1 032	686
Statutory Assets	1 517	1 333	990	1 269
Fair value derivative asset	5 697	3 807	1 032	686
Other assets	242	241	126	127
New HoldCo loan	152	160	177	196
Net advances	20 176	19 433	18 389	18 745
Gross advances *	29 207	28 828	27 659	27 743
Advances fair value true-up*	93	69	33	13
Deferred administration fees*	(19)	(19)	(19)	(19)
Impairment provisions*	(9 105)	(9 445)	(9 284)	(8 992)
Net deferred tax asset	-	20	110	85
Property and equipment	505	528	553	550
Intangible assets	131	123	106	89
Goodwill	1 724	-	-	-
Total assets	54 562	52 231	49 402	47 381

Liabilities and equity				
Collateral liabilities	4 993	3 807	1 032	686
Other liabilities	1 502	1 517	1 551	1 587
Fair value derivative liability	32	6	1	-
Treasury funding - existing	36 588	37 354	36 873	31 288
Treasury funding - roll forward	-	-	-	3 067
Net deferred tax liability	103	-	-	-
Subordinated bonds - principal	1 485	1 485	1 485	1 485
Subordinated bonds – accrued interest	74	52	52	53
Total liabilities	44 777	44 221	40 994	38 166
Share Capital	10 000	10 000	10 000	10 000
Reserves and accumulated losses	(215)	(1 990)	(1 592)	(785)
Total equity (capital and reserves)	9 785	8 010	8 408	9 215
Total liabilities and equity	54 562	52 231	49 402	47 381

** The split of net advances is an additional disclosure not required under IFRS. The split is based on the carrying values of the Good Book in African Bank (before the fair value accounting of the Good Book at the Transaction Effective Date) and is shown to allow better comparability.*

The accumulated losses are mostly driven by non-recurring items, being assumed irrecoverable VAT of ZAR215 million and a goodwill impairment of ZAR1.7 billion. VAT has been assumed to become due on the property and equipment, intangibles and goodwill assets being transferred. The recoverable portion of this VAT charge is assumed to be broadly in line with historic apportionment of VAT in African Bank, with the remaining irrecoverable amount recorded in reserves at the Transaction Effective Date and recycled as a charge through the statement of profit or loss in the six month period ending on 30 September 2016. The total forecast equity is forecast to grow throughout FY17 and FY18. This improvement results from increased forecast profitability up to the end of FY18.

Total assets and liabilities reduce in FY17 and FY18 partially due to forecast movements in foreign currency debt and the cash held as natural hedge.

The first scheduled repayment of existing liabilities on the First Maturity Date leads to a reduction in forecast cash of the Issuer and a net reduction in liabilities in FY18.

It is an important structural element of the Restructuring to deliver a bank that has a reasonable prospect of achieving the CET Target. Common Equity Tier 1 Capital is forecast as follows: as at 30 September 2016: 27.2 per cent., as at the end of FY17: 27.3 per cent., and as at the end of FY18: 28.8 per cent. (Refer to “Description of the Issuer – Equity and Capital in the Issuer” for further commentary in this regard. See also “Description of the Issuer – The Issuer’s Liabilities” which comments on the fair value assumption on New Debt Instruments.)

The Issuer forecast statement of profit or loss until FY18

Abridged statement of profit or loss for the Issuer for periods ending 30 September

	Forecast	Forecast	Forecast
	6 months	12 months	12 months
ZAR million	FY16	FY17	FY18
Interest income on advances	2 095	5 292	5 764
Non-interest income	409	1 243	1 715
Income from operations	2 504	6 535	7 479
Credit impairment charge	(161)	(1 342)	(2 130)
Claims Recovered from Stangen/cell captive	12	117	227
Risk-adjusted income	2 355	5 310	5 576
Amortisation of Intangibles and impairment of goodwill	(1 732)	(17)	(17)
Other interest income	573	1 200	1 221
Interest expense	(1 607)	(3 519)	(3 218)
Operating costs	(1 148)	(2 314)	(2 301)
Foreign exchange losses	(184)	-	(34)
Indirect taxation: VAT	(269)	(109)	(108)
Operating (loss) / profit before taxation	(2 012)	551	1 119
Deferred tax	123	90	(25)
Direct taxation: current tax	(101)	(243)	(287)
(Loss) / profit for the period / year	(1 990)	398	807

The Issuer is forecast to make a loss of ZAR2.0 billion in the 6 month period ending on 30 September 2016, which is mostly attributable to non-recurring items being the assumed amount of irrecoverable VAT (ZAR215 million) and the impairment of goodwill (ZAR1.7 billion). Thereafter the forecast performance is anticipated to improve, with profits after tax of ZAR398 million forecast in FY17 and ZAR807 million forecast in FY18.

The underlying performance of the Issuer is forecast to improve significantly over the Base Case Period, largely as a result of the performance of the book. This benefit reflects the anticipated positive outcome of the revised credit policies that have been implemented since Curatorship as new loans become a greater proportion of the loan advances book due to increased sales volumes included in the Base Case Forecasts. African Bank's recent volumes of monthly disbursements have exceeded the volumes previously forecast, and the Base Case Forecasts have been updated accordingly. In addition, it is forecast that the Repo Rate will increase during the Base Case Period (see details in Annexure A5 to this Base Prospectus) and this results in increased interest income forecast to be earned on cash balances during the period.

It should also be noted that under the Base Case Forecasts, the Issuer retains substantial cash holdings during the Base Case Period. Such holdings, if retained, have a performance drag, since the return on such cash holdings is less than the interest accrued on the funding liabilities. It is anticipated that management will continue to develop the business plan for the Issuer which may deploy some of this cash holding into more profitable lending activities, in co-ordination with the board of the Issuer and New HoldCo.

For more information on the preparation of the Base Case Forecasts, please refer to Annexure A5 to this Base Prospectus.

Conclusion

Although the economic climate in South Africa remains challenging, the Base Case Forecasts (subject to the various principal assumptions disclosed in Annexure A5 to this Base Prospectus) forecast that the Issuer is reasonably positioned to become a viable and profitable bank within two and a half years of the Transaction Effective Date. The strong cash position of the Issuer in conjunction with a wide range of credit scoring, provisioning, operational, and risk improvements that have been implemented since Curatorship results in the Issuer Balance Sheet that demonstrates a reasonable prospect of the Issuer achieving the CET Target based on the principal assumptions set out in the section headed “*The Base Case used to prepare the Base Case Forecasts*” above, read with Annexure A5 to this Base Prospectus.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

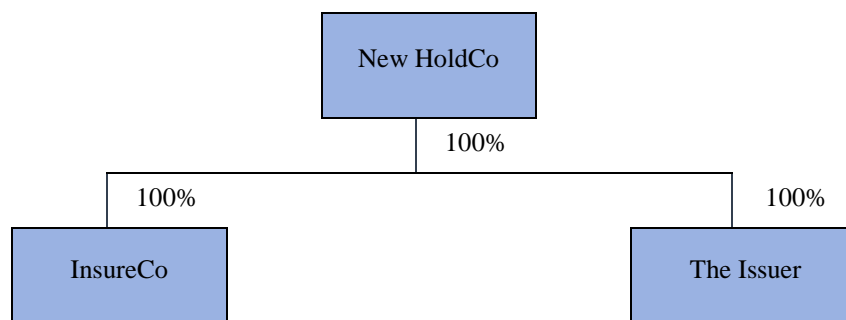
USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be applied by the Issuer for its general corporate purposes, save that Notes issued to African Bank as part of the Restructuring will be issued in consideration for the transfer to the Issuer by African Bank of certain parts of African Bank's business as part of the Restructuring.

DESCRIPTION AND GOVERNANCE STRUCTURES OF NEW HOLDCO GROUP

INTRODUCTION TO THE NEW HOLDCO GROUP

The New HoldCo Group will consist of: (i) New HoldCo (*African Bank Holdings Limited*) as the new group holding company and a controlling company in respect of the Issuer; and (ii) New HoldCo's two direct wholly-owned Subsidiaries, the Issuer and InsureCo (*African Insurance Group Limited*) (as the holder of the Cell Captive Shares).



The name of the Issuer will be changed to “African Bank Limited” and, simultaneously, African Bank will be renamed “Residual Debt Services Limited” on or about the Transaction Effective Date.

OVERVIEW OF THE VARIOUS ENTITIES COMPRISING THE NEW HOLDCO GROUP

New HoldCo (*African Bank Holdings Limited*)

African Bank Holdings Limited (registration number 2014/176855/06) (“**New HoldCo**”) will be the ultimate holding company of the group and is a bank controlling company in respect of the Issuer in accordance with the Banks Act.

All of the ordinary shares in New HoldCo will initially be owned by the Consortium (25 per cent. being held by the Participating Banks, 25 per cent. by the GEPI and 50 per cent. by SARB). It is intended that New HoldCo will ultimately be listed on the JSE to allow an exit opportunity for the initial shareholders and to provide the Issuer with access to equity capital markets. The timing of such a listing will depend on market conditions at the relevant time, the establishment of a group profitability track record that will satisfy investor requirements and the Issuer demonstrating the ability to refinance its maturing debt instruments that fall due in 2018.

The Consortium will have provided ZAR10 billion of share capital to New HoldCo immediately before the implementation of the Restructuring. New HoldCo will apply this share capital to capitalise the Issuer with an equivalent amount of equity share capital. As a result, the Issuer will have equity share capital equal to ZAR10 billion immediately following the Transaction Effective Date.

InsureCo (*African Insurance Group Limited*)

African Insurance Group Limited (registration number 2014/177424/06) (“**InsureCo**”) is the intermediate holding company for all the present and future insurance interests in the New HoldCo Group and will be responsible for monitoring and ensuring compliance with the governance, risk and solvency requirements set out in the applicable insurance sector legislation. InsureCo is the registered and beneficial owner of the Cell Captive Shares and is contractually obliged to capitalise and fund the Good Bank Cell (as defined and further

explained in “*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement - The relationship between InsureCo and the cell captive insurer*”).

All of the issued shares in InsureCo are owned by New HoldCo.

The Issuer (to be renamed African Bank Limited)

The Issuer is the newly incorporated entity that will acquire the Good Bank Business from African Bank on the Transaction Effective Date. The Issuer is a direct, wholly-owned Subsidiary of New HoldCo and it holds all the licences, registrations and approvals required to conduct the Good Bank Business (including licenses and approvals required in terms of the Banks Act, the NCA and the Financial Advisory and Intermediary Services Act, 2002) on the Transaction Effective Date.

More detail about the proposed assets, liabilities, operations and business model of the Issuer is included in section headed “*Description of the Issuer*”.

BOARD AND CORPORATE GOVERNANCE STRUCTURES IN THE NEW HOLDCO GROUP

The boards of New HoldCo and the Issuer will comprise of the same individuals, at least for the initial period following implementation of the Restructuring. It may however become appropriate to introduce new or different skills on the various boards if the need arises in future.

Due to the distinct business and regulatory regimes for banks and insurers, although there will be several common directors, the composition of InsureCo’s board will not be identical to the compositions of the New HoldCo and the Issuer’s boards. For more information on the composition of the Issuer’s board see “*Description of the Issuer – Governance – The Issuer’s Board of Directors and Management – Composition of the Issuer’s Board*”.

The Curatorship of African Bank and the establishment of the Issuer have necessitated a rigorous examination of the governance and risk management structures and processes that will be established within the New HoldCo Group. The focus of this process, which is still ongoing, is to clearly and comprehensively define the New HoldCo Group’s risk appetite and risk parameters. (See the section “*Description of the Issuer – Risk Management*” for further detail about risk management structures and principles to be established in the New HoldCo Group as well as an overview of improvements that have been made to systems, processes and training to improve general risk management within the Good Bank Business).

All group risk committees will be formed at the New HoldCo level, but they will have responsibility for Subsidiaries as well. The primary board committees that will oversee risk governance for the New HoldCo board are the Group Risk and Capital Management Committee and the Group Audit and Compliance Committee. In addition to these committees, it is intended that another three permanent board committees will be established at New HoldCo level:

- a Group Remuneration Committee;
- a Group Transformation, Ethics and Sustainability Committee; and
- a Directors’ Affairs/Nominations Committee.

Each board in the New HoldCo Group will have ultimate responsibility for the operations and financial soundness of the enterprise it manages, including ensuring that risks are adequately identified, measured and managed. The boards of the Subsidiaries will however manage their respective businesses in the context of the group risk parameters and policies established by the New HoldCo group risk committees from time to time.

DESCRIPTION OF THE ISSUER

*This section serves as a brief description of K2014176899 (South Africa) Limited (Registration Number 2014/176899/06) (the “**Issuer**” or, as referred to in Annexure A to this Base Prospectus, “**Good Bank**”) which is to be renamed African Bank Limited prior to the issue of any Notes under this Programme.*

HISTORY AND OVERVIEW

K2014176899 (South Africa) Limited (the “**Issuer**” or, as referred to in Annexure A to this Base Prospectus, “**Good Bank**”) was registered as a public company under registration number 2014/176899/06 on 9 September 2014 with the Companies and Intellectual Property Commission established under section 185 of the Companies Act. The Issuer was registered specifically to acquire the Good Bank Business from African Bank in terms of the Restructuring and will only commence business on the Transaction Effective Date when it acquires the Good Bank Business. The name of the Issuer will be changed to African Bank Limited on or about the Transaction Effective Date.

On 1 March 2016, the Issuer was granted approval by the Registrar of Banks to register as a bank in South Africa and will hold a full banking licence.

The Issuer is also authorised as a financial services provider in South Africa by the FSB and as a registered credit provider under the authority of a licence issued by the NCR in South Africa. The Issuer’s business plan has been created based on existing capabilities within African Bank and is predicated on the continuation of the African Bank business model of a mono-line, unsecured debt offering to natural persons, and addressing the same market segments that were targeted under African Bank, being medium to lower income segments who are not well served by other banks for personal loan needs. The Issuer may also target alternative and additional products and markets in future.

The majority of loans granted by the Issuer in the future will be originated through the branch network which will be transferred by African Bank to the Issuer on the Transaction Effective Date. As at the end of September 2015, approximately 2 000 of the total number of employees (approximately 4 500) of African Bank were employed in 399 branches throughout the country.

Historically, Stangen provided credit life insurance cover in relation to loans originated by African Bank. As a result, credit life insurance policies sold to cover a customer’s outstanding credit obligation on the Good Book have generally been underwritten by Stangen and these remain in full force and effect after the Transaction Effective Date. The key financial relationship between African Bank and Stangen was the commission and fees that were 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.

However, Stangen will not form part of the New HoldCo Group. A new cell captive insurance arrangement has been established within the New HoldCo Group. The new cell captive arrangement is further explained in the section headed “*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*”.

The Issuer 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.

CORPORATE STRUCTURE AND SHAREHOLDING

The Issuer is a wholly-owned direct Subsidiary of New HoldCo, which is a registered bank controlling company.

Each of the Issuer and New HoldCo is subject to the regulation of the Registrar of Banks and the Bank Supervision Department of SARB.

All of the ordinary shares in New HoldCo are owned by the Consortium. By the Transaction Effective Date the Consortium will have capitalised New HoldCo with ZAR10 billion of equity in the following proportions:

- SARB: ZAR5 billion – 50 per cent.;
- GEPF: ZAR2.5 billion – 25 per cent.;
- Absa Bank Limited: ZAR495 million – 4.95 per cent.;
- Nedbank Limited: ZAR410 million – 4.10 per cent.;
- FirstRand Bank Limited: ZAR655 million – 6.55 per cent.;
- Investec Bank Limited: ZAR245 million – 2.45 per cent.;
- The Standard Bank of South Africa Limited: ZAR595 million – 5.95 per cent.; and
- Capitec Bank Limited: ZAR100 million – 1.00 per cent.

This equity capital will enable New HoldCo to capitalise the Issuer with an equivalent ZAR10 billion by the Transaction Effective Date.

(See the section headed “*Description and Governance Structures of New HoldCo Group*” for more details about the corporate structure of the Issuer and the New HoldCo Group).

STRATEGIES IMPLEMENTED SINCE CURATORSHIP TO STRENGTHEN GOOD BANK BUSINESS

The main improvements designed to support and strengthen the Good Bank Business after the Transaction Effective Date can be summarised as follows:

- the Good Book that will be transferred to the Issuer has been selected based on more conservative credit risk-based criteria to achieve the best outcome for the Issuer. The Residual Book contains the poorer quality assets and will remain behind in Residual Bank;
- funding liabilities will be reduced substantially because the Exchange Offers will result in: (i) 80 per cent. of African Bank’s senior funding liabilities; and (ii) ZAR1.485 billion of subordinated debt (excluding accrued interest), being assumed by the Issuer (see the section headed “*Curatorship of African Bank and Summary of Restructuring*” for more detail in respect of the Exchange Offers);
- the Issuer will have a substantial opening cash balance comprising the Top-Up Cash Amount and the ZAR10 billion equity and this will result in high liquidity throughout the Base Case Period;
- the Issuer will be led by a new Chief Executive Officer, Chief Financial Officer, Chairman and board of directors, with extensive experience in the South African banking market and who will focus on taking the business forward and exploiting new strategies and opportunities;

- African Bank historic credit policies and tools have been reviewed and improved to ensure that better quality, more profitable loans are originated in future (the revised policies have already been applied since the Curatorship Date in the origination of the New Loans forming part of the Good Book);
- a cost reduction programme has commenced to more appropriately right size the cost structure of the Issuer;
- provisioning methodologies have been reviewed and improved to reflect credit impairments more accurately and conservatively;
- the risk governance framework continues to be improved to ensure that risks are identified and mitigated in a more efficient manner; and
- there will be a strategic focus on further diversification of the Good Bank Business including its product offering, target markets and sources of funding.

Further details about the above key and other improvements proposed in respect of the Good Bank Business are provided below in this section headed “*Description of the Issuer*”.

BUSINESS OF THE ISSUER

Introduction

The Issuer, as a registered bank under the Banks Act, will at least initially provide substantially the same product offering as African Bank during Curatorship.

Accordingly, the Issuer will continue to offer, as its core product, unsecured lending in the form of competitively priced long-term and short-term personal loans with a term of up to 60 months and credit cards, to its target market of typically lower to middle income customers and these products will be distributed through the Issuer’s branch network and electronic channels.

The new management team of the Issuer will continuously assess the business model and product offering in a changing market to ensure that the Issuer extends its offering to exploit new opportunities, if and when appropriate.

Personal loans

The Issuer will provide unsecured loans to typically lower and middle income customers in South Africa. The eligibility criteria for the Issuer’s loans will continue to require individuals to be formally employed and to have a bank account in South Africa. The Issuer’s loan products will typically be term facilities, having maturities of between three and 60 months with fixed, equal monthly repayments.

Credit cards

The Issuer will offer a variety of credit card products to its customers, ranging from entry level (blue) cards for its higher risk customers, to platinum cards for its lowest risk customers.

Credit life insurance

As was the case in African Bank, the Issuer will continue to offer credit life insurance to the Issuer’s customers. The insurance policies so sold will cover a customer’s outstanding credit obligation on the Issuer’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 in respect of new credit granted will be retained within the cell captive arrangement described in the section headed “*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*” below.

Loans in the Good Book that were already insured by Stangen on 17 January 2016, being the date on which the cell captive insurance arrangement came into effect, will continue to be insured by Stangen for the time being but it is likely that a significant portion of this insurance will be brought within the cell captive arrangement in the short term. Accordingly, until the existing book of the Issuer as at the date of commencement of the cell captive insurance arrangement has been repaid or refinanced, insurance arrangements with both Stangen and Guardrisk will be in place.

Retail savings and investment products

The Issuer will continue to offer retail savings and investment products, including fixed deposits, flexible fixed deposits (where a portion of the deposit is available on notice) and notice deposits, ranging in terms from 32 days to 60 months. These products will further diversify the Issuer’s funding base and are intended to provide an attractive alternative investment option for private retail investors wishing to diversify their investment portfolio. However, it is not expected that this will become a significant additional source of funding for the Issuer.

Funeral insurance

The Issuer will continue to offer a funeral insurance product, the Claim Express Funeral Plan, but which will be insured through the cell captive (described in the section headed “*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*” below). The product pays claims within 24 hours or doubles the pay-out amount if this service standard is not achieved.

Other products

Opportunities in sectors adjacent to existing capabilities could present further upside in future, but have not been taken into account in the conservative assessment of the Issuer’s immediate prospects. The new board and management team of the Issuer are considering and will continue to consider these opportunities.

Operating model

Summary of African Bank Operational Features	As at 30 September 2015
Number of branches	399
Number of employees	4 500
Branch sales force	c.2 000
Collections Call Centre workforce	c.1 235
Number of customers	c.1 580 000

The operating model will initially remain similar to that of African Bank, but will include enhancements to operations post Curatorship, many of which are described in this section headed “*Description of the Issuer*” and have been designed to address specific weaknesses. These enhancements to the operating model have substantially been implemented during Curatorship.

Origination Channels

The majority of new loans granted by the Issuer will be originated through the African Bank branch network to be transferred to the Issuer on the Transaction Effective Date and it is anticipated that this will continue to

be the situation in the short to medium term. African Bank had 399 branches throughout the country as at the end of September 2015.

Other origination channels include:

- the online channel “Inseconds” which is accessible on the African Bank website and will be accessible on the Issuer’s website, followed by loan completion in a branch (approximately 15 per cent. to 20 per cent. of loans are originated in this manner); and
- outbound calling by the sales call centre to follow up on leads. In the short to medium term, almost all loans will be completed in branches.

Cell Captive Arrangement

African Bank's sister company Stangen will not form part of the New HoldCo Group. Instead, a new cell captive insurance arrangement has been established by InsureCo with Guardrisk.

Since 17 January 2016, all new customers of African Bank have been offered credit life insurance cover by Guardrisk and credit card customers (both new and existing) are being offered insurance products issued by Guardrisk in terms of this new arrangement.

For other existing customers of African Bank who benefit from insurance arrangements with Stangen, the arrangements involving Stangen are expected to continue for the time being (subject to the termination of those insurance arrangements on the basis of refinancing, repayment, lapsing or otherwise in due course) but it is likely that a significant portion of this insurance will be brought within the cell captive arrangement in the short term.

The new arrangement has been established through various contractual relationships between Guardrisk, African Bank and InsureCo.

Guardrisk is a registered and licensed long-term insurance company that has been conducting cell captive insurance business in South Africa for over 16 years. It has already established a portfolio of multiple cells owned by a variety of different shareholders. Guardrisk is a wholly owned Subsidiary of MMI Group Limited.

What is cell captive insurance?

Cell captive insurance is normal insurance cover provided by a registered insurance provider. The insurance company, both from a regulatory, insolvency and general corporate law perspective, is a separate juristic person subject to the same rules, regulations and requirements as any other registered insurer. The insurer must comply with all the solvency, liquidity and capital adequacy requirements applicable to insurance companies in the same category and it will underwrite and carry risks towards its policyholders as a licensed insurance company in the ordinary course.

The main distinguishing factor is that a cell captive insurer issues different classes of shares to its various shareholders. Each class of share is linked to a particular cell in the insurer and enables the relevant shareholder (or cell owner) to share in the profits of the relevant cell through dividends. Each shareholder is also contractually obliged to capitalise its cell from time to time: (i) to ensure that the cell complies with regulated capital and solvency requirements at all times and (ii) to absorb any underwriting losses that may arise. As such, each shareholder effectively carries the risk and shares in the benefit of the insurance business in the cell linked to that shareholder's class of shares.

A cell is a notionally segregated portion of the business of the insurance company, ring-fenced through contractual arrangements between the cell captive insurance company and its various shareholders. A cell

does not constitute a separate legal entity and it is not a statutory ring-fenced structure - it is merely a reference to a specific portion of the insurer's business.

Cell captive insurance is widely used and accepted in the South African insurance market.

The relationship between InsureCo and the cell captive insurer

InsureCo has subscribed for a separate class of shares in Guardrisk (the “**Cell Captive Shares**”) linked to a specific and contractually ring-fenced cell (the “**Good Bank Cell**”). The Good Bank Cell will consist of all the insurance business introduced by the Issuer to Guardrisk.

If an underwriting profit is made in the Good Bank Cell, then InsureCo has the right to the profits (or dividends) in its capacity as shareholder. If an underwriting loss is made, InsureCo is contractually obliged to subscribe for further Cell Captive Shares to contribute sufficient capital to absorb the loss.

The right to dividends in the event of an underwriting profit is subject to the overall solvency and liquidity of the insurer, as well as its ability to pay dividends subject to the Companies Act and applicable insurance laws. Accordingly, if losses in excess of existing solvency buffers are suffered in other cells and the relevant other shareholders default on their capitalisation obligations, then the ability of the insurer to pay dividends in respect of profitable cells may be affected.

To mitigate the risk of cross-contamination between cells, all major cell captive insurers in South Africa already require that shareholders maintain their cells in a financially sound condition, by (for example) prescribing minimum capital holding requirements. The regulator is also in the process of drafting legislation that will make certain minimum solvency requirements in each cell a statutory obligation.

To further mitigate this risk, the holding company of the cell captive insurer (in this case Guardrisk Group Proprietary Limited) holds a particular class of shares constituting a so-called promoter cell. The promoter cell is intended to contain sufficient capital to absorb losses suffered in loss-making cells where the relevant shareholders fail to comply with their contractual funding obligations. The quantity of promoter capital required from time to time is determined on an actuarial basis.

Although profits derived from the Cell Captive Shares will be available to recapitalise the Issuer if required, such recapitalisation is not included in the Base Case Forecasts. The Top-Up Cash Amount together with the Consortium equity capital, allows the Issuer a reasonable prospect of achieving the CET Target.

Guardrisk will earn two notional fees from the Good Bank Cell: (i) a management fee based on a percentage of premiums, subject to a fixed annual maximum fee (increasing annually by inflation); and (ii) an investment fee based on a percentage of the net investment income and realised net capital gains earned from the Good Bank Cell investment fund (being all cash and retained earnings attributable to the Good Bank Cell). These fees will reduce the profits in the Good Bank Cell available for distribution to InsureCo. The fees are referred to as notional because there is no legal liability imposed upon the Issuer to pay the fees. The notional fees that accrue to Guardrisk are subtracted from the ring-fenced profit allocation available for distribution to InsureCo. The profits so deducted (being the amount of notional fees) are then accounted for as promoter profit and paid to Guardrisk as a dividend on its shares.

The relationship between the Issuer and the cell captive insurer

The Issuer will enter into the required intermediary-, binder- and/or outsourcing agreements with Guardrisk pursuant to which the Issuer will market Guardrisk policies to its customers and will earn fees and commission from Guardrisk in this regard (please refer to Annexure A5 to this Base Prospectus which stipulates the assumptions used to forecast these fees and commissions during the Base Case Period).

Funding and capitalisation of the Good Bank Cell

InsureCo is contractually obliged to keep the Good Bank Cell in a financially sound condition. Further capital required to meet minimum capital holding requirements and to absorb any underwriting losses that may arise from time to time will be paid to Guardrisk in the form of a subscription for further Cell Captive Shares.

Since the insurance arrangement has been established before the Transaction Effective Date, African Bank has in the interim provided the financial support required by InsureCo to meet its funding obligations by advancing loans to New HoldCo before the Transaction Effective Date (the “**Insurance Funding Facility**”). African Bank's rights and obligations in terms of the Insurance Funding Facility will be transferred to the Issuer as part of the Good Bank Business so that the Issuer will effectively fund the arrangement after the Transaction Effective Date.

After the Transaction Effective Date, InsureCo will further capitalise the Good Bank Cell as and when required by utilising its own cash resources, or otherwise raising funding from the New HoldCo Group or other sources. It is currently anticipated that the Good Bank Cell will require up to ZAR150 million of capital during its first year of operation. The initial salient terms of the Insurance Funding Facility can be summarised as follows: (i) the loan will be secured by a pledge of New HoldCo's shares in InsureCo; (ii) outstandings will accrue interest at JIBAR plus 320 basis points and (iii) all capital and accrued interest will be repayable in full by the fifth anniversary of the initial draw-down date.

Collection of Residual Book for African Bank

In addition to the origination and collection of its own products and the distribution of insurance products under the cell captive arrangement described above, the Issuer has been appointed by Residual Bank to collect and administer the Residual Book. Initially, the Issuer will be appointed for a minimum period of 1 year, with an 8 months' notice period should either African Bank or the Issuer wish to terminate thereafter. The fees payable by Residual Bank to the Issuer for the collection of the Residual Book have been negotiated on arms' length terms and have also been reviewed by an independent expert. The fee structure consists of both a fixed and variable component. The variable charge that will be levied by the Issuer is based on a percentage of the amount collected, with a distinction being made between soft collections and hard collections (i.e. when a legal process is pursued). The fixed cost component of the charge relates to servicing and administration costs, such as customer service, IT, finance, risk, treasury, cashflow and back office management.

Based on the projected cash flows that will be derived from the Residual Book, the projected number of accounts on book on a monthly basis and calculating the applicable fees that are expected to be derived from this portfolio, it is projected that the cost of collections to be charged by the Issuer to Residual Bank will be ZAR339 million in the period ending on 30 September 2016 (six months), ZAR651 million in FY17 and ZAR505 million in FY18.

Employees

All African Bank employment contracts in force as at the Transaction Effective Date will transfer to the Issuer. The Curator has focused on retaining key talent during the Interim Period and the Issuer intends to continue this process.

During the Interim Period, the Curator managed to avoid the cost and disruption of an extensive retrenchment exercise. As at the end of September 2015:

- 1 397 staff members have ceased to be employed by African Bank (since the Curatorship); and
- approximately 4 223 employees remained employed on a permanent basis (with a further 277 employees working on a temporary basis).

Infrastructure

All the Operational Assets of African Bank will be transferred to the Issuer on the Transaction Effective Date. The Operational Assets include the existing IT systems and infrastructure of African Bank, together with all improvements that have been made during Curatorship.

Information Technology

Availability of IT services will be indispensable for the Issuer, and IT forms an integral part of the daily operations and strategy execution of African Bank while in Curatorship.

IT will play an important role in enabling the strategic direction of the Issuer and ensuring effective and efficient processes and activities within the Issuer. Regular assessments will be conducted by the New HoldCo 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.

IT risk management within the Issuer not only involves securing the Issuer's information and systems, but also entails the application of risk management principles to ensure efficient, reliable and timely delivery of information.

Insurance

All insurance coverage for the New HoldCo Group (including the Issuer) will be placed at the New HoldCo level.

New HoldCo will have comprehensive insurance coverage, which includes the following:

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

The crime cover will protect the New HoldCo Group 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 third party computer crime.

The civil liability insurance protects the New HoldCo Group against claims for any financial losses suffered by a third party as a result of, *inter alia*, negligent, errors or omissions committed or omitted by employees of the New HoldCo Group as well as liability to third parties arising from the fraud of an employee.

Cost Reduction Strategies

The Curator, in conjunction with the management team, has focused on cost reduction strategies that could lead to sustainable annualised savings for the Issuer. An annualised saving of approximately ZAR256 million has been identified to date (which is forecast to increase to an annualised saving of ZAR591 million during the Base Case Period), based on the following savings strategies:

- a retrenchment program for 54 senior employees was implemented in February 2015 at the Midrand head office of African Bank;
- centralisation and rationalisation of some functions to reduce duplication including human resources, training, finance and some risk areas;
- negotiating preferential third party supplier rates (e.g. marketing and legal collection fees); and
- potential branch rationalisation and savings resulting from lower collection volumes as the Residual Book is collected.

COMPETITIVE LANDSCAPE

The Issuer will compete with both large lenders and smaller short-term lenders.

Banks that provide credit to their customers will comprise a large group of the Issuer's competitors. As at 30 September 2015, there were 16 registered banks, 14 branches of foreign banks, three mutual banks, two cooperative banks and 40 representative offices of foreign banks registered with the office of the Registrar of Banks. The following table sets out the respective market shares of the largest banks in South Africa in relation to unsecured loans and advances to households as at 30 September 2015 and 30 September 2014:

Bank	Personal loans and advances (percentage)	
	30 September 2015	30 September 2014
Capitec Bank	21.60	19.40
African Bank	21.00	27.30
First National Bank Limited	18.90	15.00
The Standard Bank of South Africa	16.70	14.90
Nedbank Limited	10.10	10.80
Barclays Africa	9.70	9.70
Investec Private Bank	1.00	2.00
Other	1.00	0.90
Total	100	100

Source: SARB (BA 900 Submissions) as analysed by UBS, adjusted for African Bank's actual advances

Other competitor groups include the various retailers who provide credit to their customers in respect of clothing, furniture and appliances. No single retailer has a leading share of this market.

Despite this competitive landscape, it is anticipated that the Issuer will be well placed to capitalise on African Bank's historically strong position in this market.

THE ISSUER'S ASSETS AND LOAN PORTFOLIO

The assets to be acquired by the Issuer from African Bank on the Transaction Effective Date can be categorised as Operational Assets, cash (i.e. the Top-Up Cash Amount plus collateral cash and statutory assets), the Good Book and goodwill. African Bank's loan claim in terms of the Insurance Funding Facility will also be transferred to the Issuer as an asset on the Transaction Effective Date. All forecast figures referenced in this section and the section headed "*The Issuer's Liabilities*" below are determined pursuant to the Base Case Forecasts. Please see the section headed "*Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts*" read with Annexure A5 to this Base Prospectus.

Operational Assets

On the Transaction Effective Date, the Issuer will acquire the Operational Assets from African Bank as part of the transfer of the Good Bank Business. The Operational Assets will include a range of fixed assets, immovable property, leases, intellectual property, information technology, business and operational functions and systems. The relevant specified Operational Contracts (including the Hedging Arrangements) will be assigned and transferred to the Issuer by operation of law in terms of section 54 of the Banks Act.

In essence, the Issuer will acquire all the assets, contracts, systems, functions, platforms and arrangements required by it to continue to conduct the Good Bank Business as a going concern after the Transaction Effective Date.

Cash

It is forecast in the Issuer Balance Sheet that African Bank will transfer an amount of ZAR7.8 billion to the Issuer as a provisional Top-Up Cash Amount to be paid to the Issuer by African Bank as part of the Restructuring, comprising both local and foreign currency (which will, for purposes of the calculation, be converted to ZAR at the spot rate on the Business Day preceding the Transaction Effective Date). The purpose of the Top-Up Cash Amount is to ensure that the Issuer's assets (including goodwill) are equal to the liabilities issued and/or assumed by the Issuer (before the ZAR10 billion equity contributed by the Consortium is taken into account). The provisional Top-Up Cash Amount in the Base Case Forecasts will be verified and reconciled with actual numbers during a true-up process after the Transaction Effective Date and in the case of a shortfall, Residual Bank will supplement the provisional Top-Up Cash Amount with further cash. Likewise, if the provisional Top-Up Cash Amount exceeds the final Top-Up Cash Amount, the Issuer will pay the appropriate refund to Residual Bank.

The Top-Up Cash Amount and the ZAR10 billion equity to be contributed by the Consortium will result in a highly liquid opening statement of financial position that demonstrates a reasonable prospect of the Issuer achieving the CET Target. In addition, it is forecast that ZAR5.0 billion of collateral cash held in terms of the Hedging Arrangements and ZAR3.2 billion of statutory assets (or near cash items) will also be transferred to the Issuer on the Transaction Effective Date. The amount in respect of statutory assets (or near cash items) is forecast at the expected level in African Bank as at the Transaction Effective Date. It must however be noted that statutory assets will have to be adjusted in the Issuer after the Transaction Effective Date to ensure that it is in line with the statutory asset requirements as determined specifically in relation to the Issuer.

The strong capital and liquidity position of the Issuer, and the manner in which it will apply its substantial initial cash resources to strengthen its business model, are discussed in more detail in the sections headed "*Equity and Capital In the Issuer*" and "*Liquidity of the Issuer*" below.

The Good Book and loan portfolio

The Good Book to be transferred to the Issuer includes both historic Selected Loans and New Loans. All New Loans originated during the Interim Period comply with the new lending criteria and policies introduced on and after the Curatorship Date ("**New Lending Criteria**").

As at 30 September 2015, the gross book value of the Good Book was ZAR29.0 billion and it is forecast that the gross book value will be ZAR29.2 billion as at 1 April 2016.

The Selected Loans included in the Good Book have been selected and agreed between the Curator and the Consortium by applying the following criteria:

- any loans (including limit increases) where the credit score at origination met the New Lending Criteria and were not affected by credit amnesties (i.e. where certain adverse credit information is removed from a credit bureau's records);
- all loans with a written off or rehabilitation status as at Curatorship Date were excluded and allocated to the Residual Book, regardless of whether New Lending Criteria were met;
- all loans to Ellerine Furnishers' customers (i.e. furniture loans) and to those customers who repay on a cash basis were excluded and allocated to the Residual Book, regardless of whether New Lending Criteria were met;

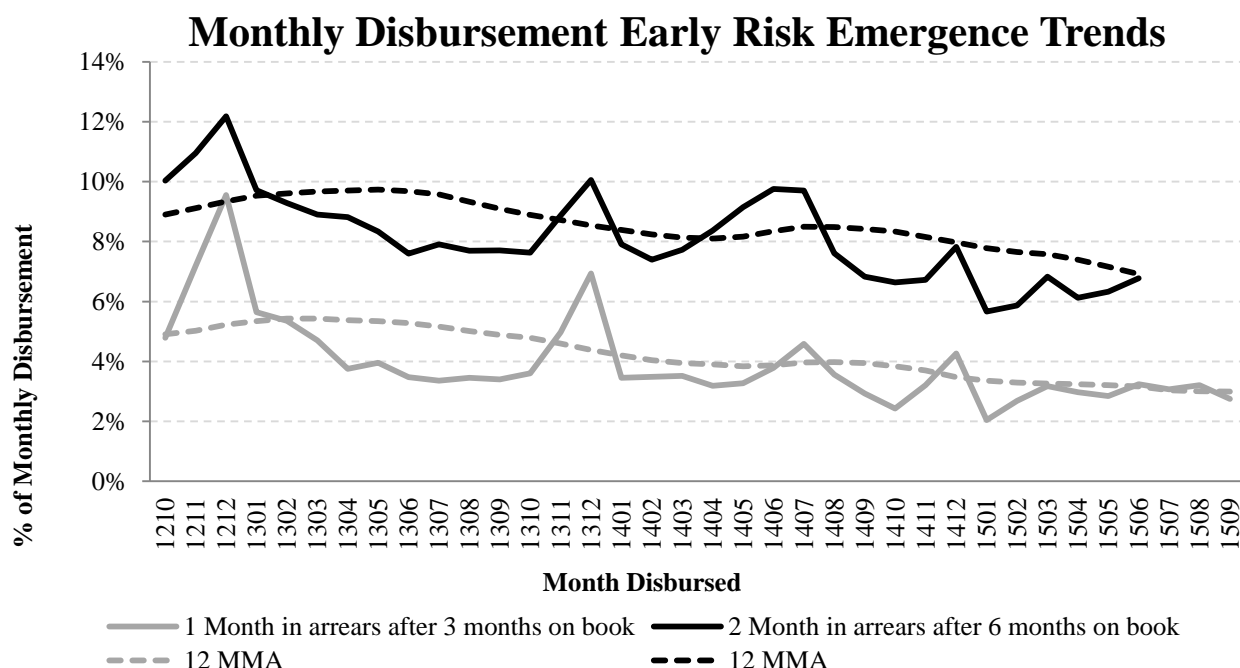
- all loans originated in African Bank branded kiosks in the Ellerine Furnishers' distribution channel were excluded and allocated to the Residual Book, regardless of whether New Lending Criteria were met;
- as Residual Bank will not have a banking licence after the Transaction Effective Date, all active credit card accounts (i.e. where the relevant facility has not been withdrawn or terminated by African Bank) as at the Transaction Effective Date are included in Selected Loans, even though they may not meet the revised borrower criteria in terms of the new more conservative lending model. During Curatorship, significant efforts have been made to withdraw non-performing credit card facilities; and
- the balance of unallocated loans, not falling into any of the categories above, were allocated to the Residual Book.

Since 2013, credit policies within African Bank have been regularly reviewed to improve the quality of loans disbursed. The lending criteria have been further refined at the inception of Curatorship (and even further during Curatorship) to ensure that the loan portfolio of the Issuer is positioned to improve in quality over the Base Case Period. All the New Loans included in the Good Book have been originated based on the improved credit policies that have been implemented since the Curatorship Date.

The key changes that have been implemented to improve the quality of the loan book can be summarised as follows:

- in the past, credit applications were categorised into 19 groups based on increasing risk profiles (A to S, with S being the highest risk category). Since Curatorship, the credit policy no longer permits the origination of loans in categories R and S (previously the highest risk clients) and loan terms in categories P and Q may no longer exceed 6 months;
- the affordability model has been improved to allow for greater risk differentiation and the NCA minimum expense table is used as a maximum benchmark to test affordability of loans;
- the sales incentive structure has been revised to ensure that loan quality (as opposed to loan volumes) becomes a stronger incentive driver for sales consultants;
- the maximum loan term has been reduced from 84 months to 60 months;
- the maximum loan size has been reduced from ZAR180 000 to ZAR150 000;
- a new profitability model has been introduced to evaluate profitability by term and loan size and to reduce risk; and
- loans to settle (or refinance) distressed loans are no longer advanced.

The new credit policy has already led to a material improvement in the early risk emergence trends of the African Bank loan book:



*12 MMA = 12 month monthly average

In the graph above, the grey lines reflect loans that have missed one or more payments within three months of origination, while the black lines reflect loans that have missed two or more payments within six months of origination. These demonstrate that despite short term volatility, including seasonal underperformance in December, the early risk emergence trend has continued on a downward trajectory overall. The volatility resulting from seasonal trends appear to normalise in subsequent months.

The table below provides key statistics in respect of the composition of the Good Book during Curatorship, forecast up until 1 April 2016:

Forecast to 1 April 2016		
Gross Good Book	ZAR billion	29.2
Credit cards	ZAR billion	6.7
Loans	ZAR billion	22.5
Impairment provisions	ZAR billion	9.1
Provision coverage	%	31
Current business to 30 September 2015 (excluding credit card book)		
Average loan size	ZAR	21 638
Average loan term	Months	46.1
Average instalment	ZAR	1 111
Average card limit	ZAR	12 075

Impact of the New NCR Regulations on the business model and product offering

On 6 November 2015, the Department of Trade and Industry published the New NCR Regulations that will, *inter alia*, reduce the maximum interest rate that may be charged on unsecured personal loans from 2.2*Repo Rate + 20 per cent. to Repo Rate + 21 per cent. (which, based on a Repo Rate of 7.0% at the date of this Base Prospectus, equates to a reduction of 7.4 per cent.). The New NCR Regulations will take effect 6 months after the date of publication. The anticipated impact of the New NCR Regulations on the strategy, business model and product offering of the Issuer is discussed in this section. The Base Case Forecasts have been prepared on the assumption that the New NCR Regulations will apply with effect from 1 May 2016 .

The New NCR Regulations are anticipated to affect the model and product offering of the Issuer in the following manner:

- more conservative lending criteria will be applied to ensure that risk is appropriately aligned to lower interest rates - this is likely to result in lower loan volumes in general targeting customers that, on average, present a lower credit risk, either in absolute terms or because smaller loans may be appropriate for certain customers. This is likely to become a general trend in the market following the implementation of the New NCR Regulations and is not specific to the Issuer; and
- to ensure that the overall yield derived from fees and interest charged on a loan remains aligned to the risk assumed in granting the loan, it is likely that origination fees will be increased on certain products (subject to statutory limits) and that loans will be granted for potentially shorter periods. This will result in origination fees as a percentage of overall yield increasing, while the overall yield on loans are maintained at an acceptable level. Again, this is likely to become a general trend in the market following the implementation of the New NCR Regulations and is not specific to the Issuer.

Assuming that the lending criteria and product offering will be revised in the manner set out above, it is the Curator's opinion that the New NCR Regulations will not have a material impact on the profitability of the Good Bank Business. It is expected that the New NCR Regulations will generally result in smaller loans being disbursed in the market to lower risk customers for potentially shorter periods.

The interest rates forecast on the loan book of the Issuer, as described in Annexure A5 to this Base Prospectus, have been set to ensure that the reduced limits imposed by the New NCR Regulations are not exceeded.

More conservative provisioning policies

More prudent provisioning and impairment policies have been implemented during Curatorship. The following key changes have been made to the impairment models used in producing the financial statements of African Bank for the financial year ended 30 September 2015:

Previous (FY14) policies and practices	Current (FY15) amended policies and practices
A loan of a particular CD Status would be cured if at least 90 per cent. of a payment was received for a consecutive period of 3 months.	Contractual arrears is used to determine CD Status, i.e. no curing logic is applied.
The contractual CD Status was based on a round down methodology and cured CD Status' were used.	The contractual CD Status is based on a round up methodology i.e. if the contractual arrears are greater than 0 then the account is reflected as having a CD Status of 1 and a loss event is assumed.
Loans with no default would only be impaired if an adverse event was likely in the following 30 days (i.e. a 30 day emergence period was used).	The emergence period has now been increased to 90 days.

Previous (FY14) policies and practices	Current (FY15) amended policies and practices
Loans written off only if an NPL* and no payment has been received for 10 consecutive months or more.	Loans are fully impaired only if an NPL* and no payment has been received for 6 consecutive months.
Provisions calculated based on probabilities of default and losses given default.	Provisions calculated are based solely on observed discounted cash flows.
The written off portfolio had a valuation assigned to it.	The written off book has no value assigned to it.

* NPL refers to a non-performing loans, being loans with a CD Status of CD4 or worse, referred to in the financial statements as assets that are specifically impaired.

The details of the changes to the methodology used to calculate provisions within the financial statements for the year ended 30 September 2015 are outlined in Annexure A5 to this Base Prospectus.

Further details on the changes that have been made to the provisioning policy and practices of African Bank since Curatorship are reflected in the FY14 and the FY15 financial statements which are incorporated by reference and available on the website of the Issuer (www.africanbank.co.za or <http://www.africanbank.co.za/about-us/investors>).

The impact of the revised provisioning and impairment policy and practices is included in the Base Case Forecasts included in the section headed “*Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts*” and in Annexure A5.

The changes to the provisioning policy and practices referred to above have resulted in the total provisions as a percentage of gross advances increasing (compared to FY13) from 26 per cent. to 40 per cent. as at 30 September 2015. The changes result in a substantially more conservative and prudent provisioning methodology for the Good Book going forward.

Recent loan disbursement trends and new business generating initiatives

All New Loans will be transferred to the Issuer on the Transaction Effective Date as part of the Good Book. New Loans have been disbursed in terms of more conservative lending criteria and good market practice (see “*The Good Book*” above).

African Bank had already reduced its credit risk appetite by way of more conservative credit criteria before the Curatorship Date, thereby decreasing its loan disbursement volumes. The trend in loan disbursements over the last two financial years, measured on a quarterly basis, can be seen in the table below. There was a significant reduction in loan disbursements after the Curatorship Date, as evidenced by the drop in the last quarter of FY14.

Disbursements (ZAR million)	2015 Financial Year				2014 Financial Year			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
African Bank	2 121	1 712	1 358	1 570	1 363	3 305	3 634	4 568
Credit card	329	302	292	552	554	656	547	657
Ellerines	-	-	-	-	618	554	512	952
Total	2 450	2 014	1 650	2 122	2 535	4 515	4 693	6 177

The Curator and executive management of African Bank are aware of the fact that the sustainability of the Good Bank Business is dependent on reaching a sustainable level of loan disbursements of an appropriate quality to generate sustainable returns for investors. This is a continuing challenge in a tough economic environment but a number of initiatives have already been established to increase the generation of appropriate levels of new business at appropriate risk levels, some of which are listed below:

- **Branch Improvements:** extended operating hours at strategic locations have led to improved sales. Branches are more closely monitored through revised key performance indicators and incentive structures and this has resulted in overall improved branch performance in the origination of quality loans;
- **New Marketing Campaigns:** a new tone and personality have been included in recent marketing campaigns to generally improve the customer experience. Selected customers are being targeted directly through direct mailing or the call centre to market and promote specific loan products (and an increased number of call centre operatives have been assigned to this initiative). Radio campaigns in regionally dominant languages are used to communicate with hard to reach customers across South Africa; and
- **Digital Sales Channels:** digital channels have been used to improve market presence and to simplify the loan application process for customers. Platforms such as Twitter and Facebook are used more productively for digital marketing and communication. Plans that will enable customers to apply for loans from a mobile phone are being developed.

Recent loan collection trends and initiatives to improve recoveries

On average, monthly collections have remained in line with expectations post Curatorship. Average monthly collections from August 2014 to September 2015 were ZAR2.1 billion. Average monthly collections for the period from October 2015 to December 2015 were ZAR1.9 billion. The reduction in average monthly collections since Curatorship is expected in the context of the decreasing size of the loan book (specifically the Residual Book), poor economic conditions and the loss of the Ellerrine Furnishers footprint to collect loans disbursed through this channel. However, the collections of the Good Book are stable.

Since the Curatorship Date, African Bank's collections approach has been improved and it has developed alternative cash collection strategies to address the closure of Ellerrine Furnishers stores. Key collections strategies and improvements that have been implemented include:

- incentives introduced for customers to execute debit orders instead of making monthly payments;
- new point of sale and cash acceptance machines have been rolled out across the branch network to increase loan repayment options in the branch; and
- the use of "Easy Pay" facilities introduced in selected retailers to allow loan repayments to be made at retail outlets.

It is anticipated that collections will improve over time as pre-Curatorship Date loans are collected or written off and New Loans advanced on the revised lending criteria make up a bigger proportion of the overall book. The implementation by African Bank of these strategies before the Transaction Effective Date is expected to assist the Issuer with its product and service offering by strengthening the capability of the branches, and widening the service points that clients can use to repay their loans.

THE ISSUER'S LIABILITIES

As consideration for the assets acquired from African Bank, the Issuer will assume and/or issue a range of liabilities on the Transaction Effective Date (i.e. it will be accepting transfer of the Retail Deposit Obligations and the Operational Liabilities and it will be issuing the New Debt Instruments). It is forecast that the aggregate amount of liabilities in the Issuer will be ZAR44.8 billion as at 1 April 2016 but this will be subject to review and true-up after the Transaction Effective Date to take the actual numbers as at the Transaction Effective Date into account.

For purposes of the Top-Up Cash Amount calculation, all liabilities will be taken into account at the actual amount owing and outstanding (or nominal value) (Adjusted For CPI in the case of Index-Linked Instruments). For purposes of the Issuer's financial records, the liabilities must be fair valued in accordance with IFRS. The fair value of the Issuer's assets and liabilities, including the New Debt Instruments, at the Transaction Effective Date will be retrospectively assessed by the Issuer after the Transaction Effective Date. Given the absence of the necessary market information at the date of this Base Prospectus to determine the fair value of the New Debt Instruments at the Transaction Effective Date (but taking management's best estimates into account), the Base Case Forecasts assume that the actual amount outstanding in respect of the New Debt Instruments (Adjusted For CPI in the case of Index-Linked Instruments) is the fair value of the liabilities on the Transaction Effective Date. It is however possible that the management of the Issuer will reach a different conclusion when they prepare the Issuer accounts after the Transaction Effective Date, when more information necessary for a fair value calculation is available.

The Issuer's liabilities on the Transaction Effective Date will comprise:

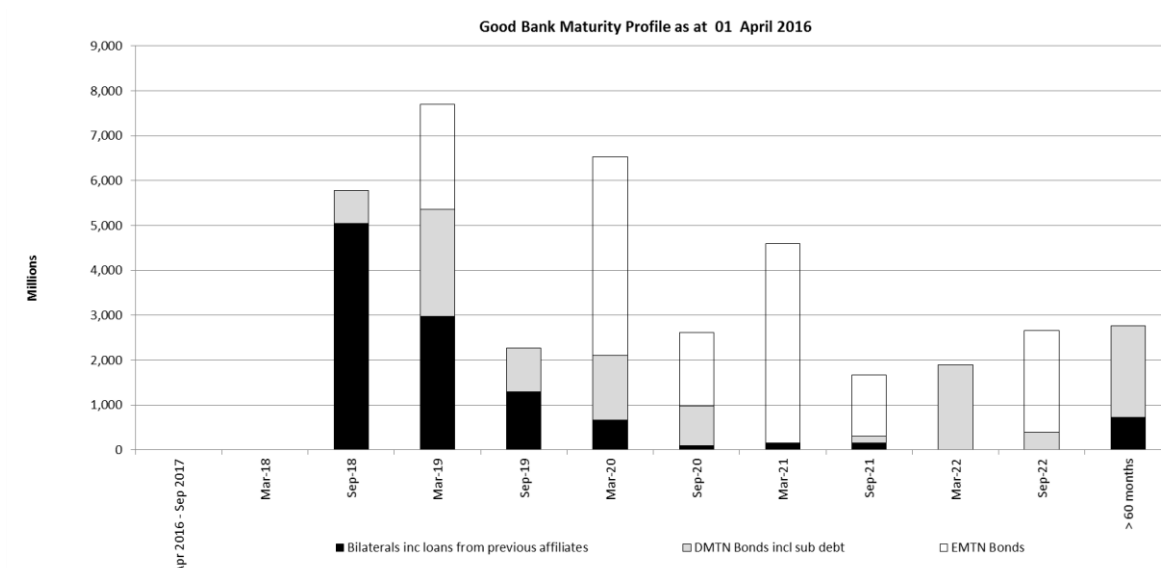
- liabilities transferred to the Issuer from African Bank in terms of section 54 of the Banks Act, being Retail Deposit Obligations and Operational Liabilities; and
- new debt instruments issued by the Issuer in terms of the Sale of Business Agreement, comprising various categories of New Senior Debt Instruments and ZAR1.485 billion of Subordinated Debt Instruments (excluding accrued interest). The New Senior Debt Instruments will accrue interest with effect from (and including) the Transaction Effective Date, but the New Subordinated Debt Instruments will accrue interest with effect from 1 December 2015. For more detail about the Exchange Offers and the New Debt Instruments, see "*Curatorship of African Bank and Summary of Restructuring*" and "*Capitalisation and Indebtedness – Description of certain indebtedness*".

The New Senior Debt Instruments will be classified largely into the following three categories of funding:

- senior EMTNs, comprising USD senior EMTNs and CHF senior EMTNs;
- senior DMTNs, comprising fixed rate notes, floating rate notes and index-linked notes; and
- bilateral corporate deposits (including PN's, NCD's and similar bilateral funding instruments).

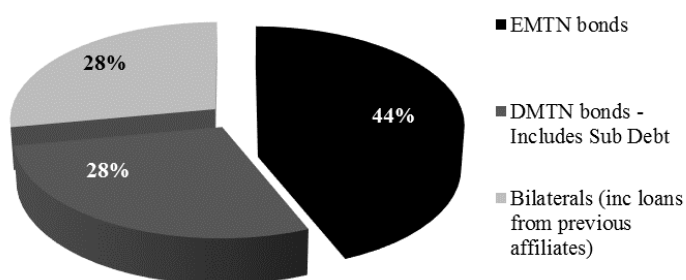
All New Subordinated Debt Instruments will qualify as Tier 2 Capital for the Issuer and will be issued in terms of the Issuer's DMTN programme as subordinated DMTNs. The Base Case takes account of the ZAR1.485 billion of New Subordinated Debt Instruments which will be issued (excluding accrued interest) in terms of the Subordinated Exchange Offer.

The following graph reflects the forecast maturity profiles of the New Senior Debt Instruments and New Subordinated Debt Instruments in the Issuer, as at 1 April 2016. Note that the numbers below are shown prior to inflation, capitalised interest, and prior to forecast roll-overs (as described in "*Liquidity of the Issuer*" below):

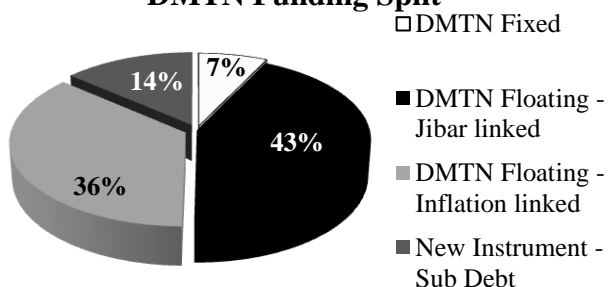


The forecast composition of the New Senior Debt Instruments as at the Transaction Effective Date is illustrated by the following charts (and for the purpose of the charts, the EMTNs of the Issuer have been converted into ZAR at the relevant exchange rate implied in the Base Case Forecasts):

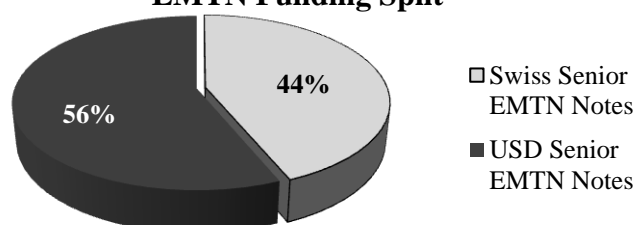
Senior Funding split per category



DMTN Funding Split



EMTN Funding Split



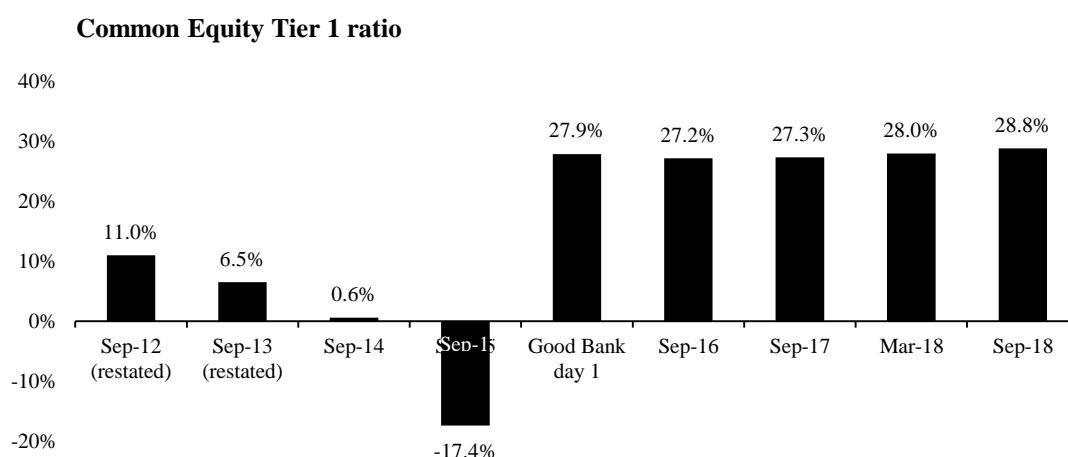
EQUITY AND CAPITAL IN THE ISSUER

If the Restructuring is implemented, then the Consortium will capitalise New HoldCo with ZAR10 billion of cash through a subscription for New HoldCo Shares. New HoldCo will likewise capitalise the Issuer, with equivalent equity subscriptions of ZAR10 billion. As such, the Issuer will have a strong opening capital position.

The Issuer will also have ZAR1.485 billion of New Subordinated Debt Instruments in issue as at the Transaction Effective Date (excluding accrued interest from 1 December 2015 up until but excluding the Transaction Effective Date, which will be paid in full by the Issuer on the Transaction Effective Date).

The Restructuring is premised on an Issuer Balance Sheet that demonstrates a reasonable prospect of the Issuer achieving the CET Target. For purposes of calculating Common Equity Tier 1 Capital, liabilities must be fair valued. To avoid the risk of the Issuer missing the CET Target purely as a result of the New Debt Instruments trading above nominal value, the Issuer has approached SARB for a specific dispensation that will allow the Issuer to use the actual amount outstanding (or nominal value) in respect of the New Debt Instruments (Adjusted For CPI in the case of Index-Linked Instruments) for purposes of this calculation and SARB has consented to this request.

The graph below indicates how the Issuer, in a Base Case scenario, is significantly better capitalised throughout the Base Case Period than African Bank historically. All forecast figures referenced in this section and the section headed “*The Issuer’s Liabilities*” above are determined pursuant to the Base Case Forecasts. Please see the section headed “*Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts*”:



Capital adequacy in the Issuer as at the Transaction Effective Date

Following implementation of the Restructuring (and assuming a Transaction Effective Date of 1 April 2016 which, for practical purposes, is targeted to occur on 4 April 2016 or such earlier or later date as the Curator may announce), the Base Case Forecasts indicate that the Issuer will have the following ratios as at the Transaction Effective Date:

- a Common Equity Tier 1 Capital ratio of 27.9 per cent.;
- a Tier 2 Capital ratio of 6.3 per cent.;
- a Total Capital Adequacy Ratio of 34.1 per cent.; and
- a Leverage Ratio of >12 per cent.

Forecast Ratios as at 1 April 2016 and during the Base Case Period

The following table illustrates the forecast regulatory capital adequacy, Risk Weighted Asset requirements, and Leverage Ratio of the Issuer during the Base Case Period, based on the Base Case Forecasts in the “*Selected Financial and Other Information*” section:

The Issuer		1 April 2016	30 Sep 2016	30 Sep 2017	First Maturity Date	30 Sep 2018
Common Equity Tier 1 Capital Ratio	(%)	27.9	27.2	27.3	28.0	28.8
Tier 2 Capital ratio	(%)	6.3	6.1	5.9	5.9	5.7
Total Capital Adequacy Ratio	(%)	34.1	33.3	33.3	33.9	34.5
Qualifying CET 1 capital	ZAR billion	7.95	7.90	8.32	8.51	9.14
Qualifying Tier 2 capital	ZAR billion	1.79	1.79	1.80	1.79	1.81
Qualifying Total capital	ZAR billion	9.73	9.69	10.12	10.30	10.95
Risk Weighted Assets	ZAR billion	28.5	29.09	30.43	30.40	31.73
Leverage ratio	(%)	>12	>12	>12	>12	>12

LIQUIDITY OF THE ISSUER

It is forecast that the Issuer will have an opening cash balance of approximately ZAR19.4 billion (excluding collateral cash and statutory assets) as at 1 April 2016. The opening cash balance comprises the Top-Up Cash Amount, the ZAR10 billion capital contributed by the Consortium and a portion of the statutory assets received from Residual Bank that is converted to normal cash (due to different statutory asset holding requirements in the Issuer) (see “*Selected Financial and Other Information – the Issuer Balance Sheet and Base Case Forecasts*”, read with Annexure A5 to this Base Prospectus).

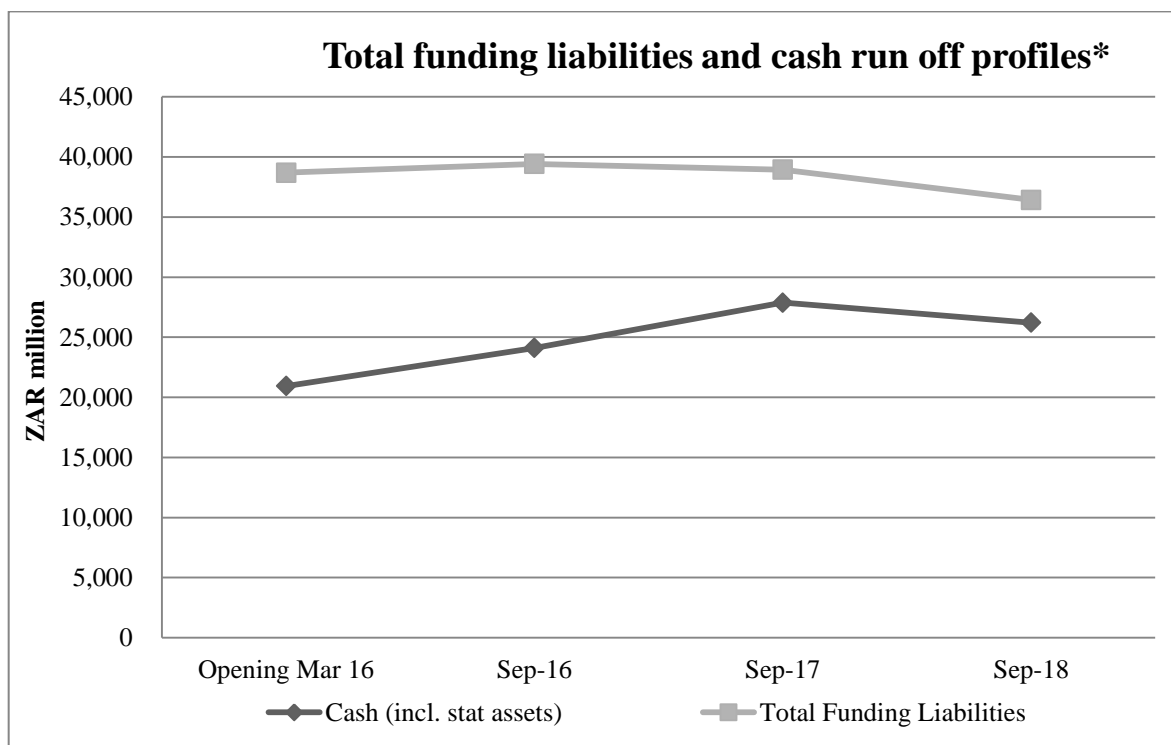
It is currently envisaged that a portion of this cash will be held in foreign currency as an economic hedge against the projected foreign exchange rate movements during the Base Case Period.

It is anticipated that the Issuer will maintain a conservative liquidity policy after the Transaction Effective Date and the Issuer is forecast to have a strong liquidity base for the duration of the Base Case Period.

The first New Debt Instruments will mature two years after the Transaction Effective Date (i.e. by the First Maturity Date). Operating cash levels are expected to further increase over this two year period because collections are currently forecast to exceed loan disbursements and operating costs up until the First Maturity Date. This high level of cash will mitigate the refinancing risk and, under the Base Case assumptions (see Annexure A5 to this Base Prospectus), it is not forecast that any funds will need to be raised in the DMTN or EMTN markets during the Base Case Period. Given that funders are likely to require the Issuer to first build up a strong track record before they reinvest, it is important to ensure that the Issuer has sufficient cash available to grow its loan book while it builds a track record of profitability and improves overall investor confidence.

The graph below indicates the forecast increase in cash relative to liabilities up to the end of FY17, followed by a forecast decrease as a result of bilateral funding that matures. In the Base Case scenario it is expected

that the Issuer will have sufficient liquidity to repay its funding liabilities that mature during the Base Case Period (i.e. up until the end of September 2018). The Base Case assumes that no EMTNs or DMTNs of the Issuer will be refinanced during the Base Case Period (i.e. EMTNs and DMTNs of the Issuer that mature during this period are likely to be repaid in cash). However, with regard to bilateral funding (i.e. funding other than through the Issuer's EMTN and DMTN programmes and loans from previously affiliated companies), the Base Case assumes that 65 per cent. of the third party bilateral funding instruments that mature during the Base Case Period will be renewed and reinvested with the Issuer on the same terms. (African Bank regularly activated a "roll-over rate" of above 80 per cent. on this basis in the past). Similarly, 100 per cent. of the loans from previously affiliated companies are assumed to be renewed on the same terms.



**Total funding liabilities include all treasury funding, subordinated notes and loans from previously affiliated companies. Cash includes all short-term deposits and cash, foreign cash and statutory assets.*

Following a review of rates currently achieved by African Bank, the Base Case assumes that ZAR, USD and CHF cash balances will be invested at annual rates of 6.76 per cent., 1.50 per cent. and 0.0 per cent. respectively as at the Transaction Effective Date, with ZAR rates increasing throughout the Base Case Period in line with forecast increases in the Repo Rate as outlined in Annexure A5 to this Base Prospectus. It is assumed that interest payable on debt varies over the Base Case Period, based on detailed calculations with reference to specific interest rates applicable to the underlying instruments. Whilst developing the Issuer's strategy, the management of the Issuer will consider various options to reduce or avoid the impact of this negative carry and these options may include a reduction of liabilities and/or investments in growth and diversification opportunities and operational improvements.

The historic cash and liquidity ratios of African Bank are illustrated in the table below:

	2011	2012	2013	Pre Curatorship (10 August 2014)	The Issuer (1 April 2016)
Cash and cash equivalents (ZAR billion) including statutory assets and collateral cash	5.5	6.3	6.9	4.4	25.9
Total liabilities (ZAR billion)	35.3	47.1	55.8	49.9	44.8
Cash and equivalent/Total liabilities (%)	16	13	12	9	58

The forecast future cash and liquidity ratios of the Issuer during the Base Case Period (including the Liquidity Coverage Ratio (“**LCR**”) required in terms of Basel III) are illustrated in the table below (see “*Selected Financial and Other Information*” for a more detailed description of the Base Case and the forecast performance of the Issuer during the Base Case Period).

The Issuer’s forecasts		1 April 2016	30 Sept 2016	30 Sept 2017	30 Sept 2018
Cash and equivalents including statutory assets and collateral cash	ZAR billion	25.9	27.9	28.9	26.9
Total liabilities, including collateral liabilities	ZAR billion	44.8	44.2	41.0	38.2
Cash and equivalent/liabilities	%	58	63	70	70
Liquidity Coverage Ratio	%	>150	>150	>150	>150

The LCR requirement came into effect on 1 January 2015, with a minimum required ratio of 60 per cent. that will increase to 100 per cent. by 2019. The LCR of the Issuer is significantly above the regulatory minimum thresholds. The reported numbers do not fully reflect the significant short-term liquidity surplus of the Issuer because in calculating the LCR, net cash flows over a 30 day period on a contractual basis is determined by limiting cash inflows to 75 per cent. of cash outflows. Given the substantial cash held by the Issuer over the Base Case Period, the 30 day liquidity of the Issuer is significantly in excess of the ratios suggested by the LCR. The LCR disclosed under the 30 September 2018 column is the ratio for 31 August 2018 based on September 2018 modelled cash flows as cash flows are not modelled beyond the Base Case Period.

The Issuer has significant currency exposures in CHF and USD as a result of foreign currency liabilities and cash. The Issuer is also compliant with the minimum LCR requirements for these currencies during the Base Case Period.

All forecasts have been prepared on the assumption that the fair value of the New Debt Instruments is equal to their nominal value as at the Transaction Effective Date.

Credit Rating

Given the importance of continued access to wholesale institutional funding, it is important for the Issuer to obtain and maintain a public credit rating on its debt funding instruments. The Issuer will obtain an issuer’s rating as well as a rating for the Programme and the Senior Notes from S&P with effect from or shortly after

the Transaction Effective Date (but holds a preliminary global scale foreign currency long-term issuer rating of B+ prelim, a preliminary rating in respect of the Programme of B+ prelim and a preliminary rating in respect of the Senior Notes of B+ prelim from S&P at the date of this Base Prospectus).

THE ISSUER INDEMNITY

Residual Bank has issued the Issuer Indemnity to the Issuer which will become effective on the Transaction Effective Date and will apply for an eight year period. SARB will financially support the issue of the Issuer Indemnity by making the SARB Indemnity Facility available to Residual Bank and by guaranteeing the payment obligations of Residual Bank under the indemnity by way of the SARB Guarantee. The maximum contingent exposure of SARB in terms of the SARB Indemnity Facility (as lender) and the Issuer Indemnity (as secondary guarantor) combined is ZAR3 billion.

The Issuer Indemnity will ensure that the Issuer is adequately indemnified against any losses or liabilities suffered by the Issuer in respect of the Good Bank Business of African Bank, to the extent that they: (i) arise from any facts, events, circumstances, acts and/or omissions that exist at midnight on the day before the Transaction Effective Date and (ii) are not taken into account in the Top-Up Cash Amount calculation. The Issuer Indemnity will provide indemnity cover up to a maximum aggregate amount of ZAR3 billion, provided that the Issuer has notified Residual Bank and SARB of the relevant claims and/or losses following the notification procedure set out below by or before the eighth anniversary of the Transaction Effective Date. In order for the Issuer to claim under the Issuer Indemnity in respect of a loss it considers qualifies for indemnification under the terms of the indemnity, it must submit written notice of its claim to both Residual Bank and SARB. The claim notice must set out the claim in as much detail as is reasonably available and as is reasonably required for Residual Bank and SARB to assess their potential liability under the indemnity. Within 15 business days of delivery of the claim notice, the Issuer, Residual Bank and SARB will seek a written settlement of the claim, failing which, Residual Bank or SARB must give written notice to the Issuer rejecting the claim. Any of the Issuer, Residual Bank or SARB may then refer the matter to a committee constituted of the deputy governor of the SARB, the Curator and the Chairman of the Issuer. If the committee cannot reach a written settlement within 30 days after delivery of the initial claim notice then the Issuer may refer the matter to arbitration. Payment of a claim is due within 30 days of the date of (i) a written settlement or (ii) an arbitrator's decision. The Issuer has an obligation to take reasonable steps to mitigate, reduce and/or avoid the impact of any loss against which it is indemnified under the Issuer Indemnity.

Under the terms of the Issuer Indemnity, there are no circumstances in which the Issuer can unilaterally release Residual Bank or SARB from their indemnification obligations. Any such release (or termination) of the Issuer Indemnity will require the written agreement of all of the Issuer, Residual Bank and SARB. Written agreement of the Issuer to such release (or termination) would only be forthcoming where the board of directors of the Issuer, acting properly and in accordance with its duties, was of the opinion that doing so was in the best interests of its shareholders.

IMPROVED RISK GOVERNANCE FRAMEWORK

Since Curatorship the risk framework in African Bank (from origination to back office functions) has been improved through the implementation of the following operational changes (amongst other things) which will inure for the benefit of the Issuer:

- anti-money laundering (“AML”) applications have been acquired, which includes automated customer screening, risk assessment, and transaction monitoring applications;
- biometrics (in addition to an ID document) are now used to identify customers;

- bank statements are now acquired electronically from the issuing bank instead of from the client directly;
- processes and policies in respect of money laundering and counter terrorism financing are being reviewed in detail and certain revisions to these processes and policies have already been approved by management;
- enterprise risk and compliance departments' competency and capacity augmented; and
- a new electronic document management system has been installed to digitise all customer documents.

RISK MANAGEMENT

Overview

The New HoldCo Group (or “**Group**”) subscribes to an enterprise risk management framework to manage risks across all its operations. Enterprise risk management refers to the design and implementation of a Group-wide risk management framework. Specifically, it requires:

- identifying potential events that may negatively affect the Group, or any part of it;
- managing risk to be within the Group's stated risk appetite and parameters; and
- providing assurance regarding the achievement of the Group's risk management objectives.

The focus of enterprise risk management is to ensure that the Issuer's business units operate within a clearly defined risk framework so as to achieve sustainable value creation, while allowing for effective and efficient identification and management of risks within the Group.

The Curatorship and the subsequent establishment of the Issuer have necessitated a rigorous re-examination of the Group's risk management. The Group has focused on clearly and comprehensively defining the Group's risk appetite and risk parameters. It is within this framework that the assurance elements of the enterprise risk management processes can be effective.

The Group's risk appetite is informed by the following considerations:

- that the balance sheet not be excessively geared;
- that sources of income be diversified across the Group, products, market segments, investments, financial markets and regions;
- that the potential impact of a severe economic downturn and stress conditions be continuously identified, measured, quantified, understood and contained in accordance with capital preservation and earnings volatility parameters;
- that all sources of leverage be understood, monitored and reported;
- that sources and maturities of funding be diversified;
- that sufficient buffers be held for capital and liquidity purposes; and
- that credit granted to customers is based on an appropriate risk-adjusted return basis.

Group risk management framework

Informed by the advice of the Group Chief Risk Officer, the New HoldCo board determines the risk appetite and parameters applicable to the Group's businesses. These risk parameters address a range of relevant issues,

including but not limited to credit risk, market risk, operational risk, liquidity risk, concentration risk and other financial risks. Risk management must be responsive to continual changes in the economic and regulatory environment and any changes will be monitored and reported on by the Chief Risk Officer to the relevant risk committees, on a monthly basis. The New HoldCo board will also be kept abreast of these considerations and will review the continued appropriateness of the then-prevailing risk appetite and parameters.

The Issuer, under the direction of its board of directors, manages its business in the context of the Group's specified risk parameters. A risk management function also exists within the Issuer to ensure that appropriate checks and balances exist at every level, including in each business unit of the enterprise. The elements of this integrated functionality are discussed below in more detail.

As at the date of this Base Prospectus, each of New HoldCo and the Issuer have boards of directors comprised of the same individuals. It may be appropriate to introduce different skills embodied by different directors into such boards as the need arises in the future.

Due to the distinct business and regulatory regime for banks and insurers, although there will be several common directors, the composition of InsureCo's board will not be identical to the compositions of the New HoldCo and the Issuer boards.

Each board in the New HoldCo Group has ultimate responsibility for the operations and financial soundness of the enterprise it manages, including ensuring that risks are adequately identified, measured and managed.

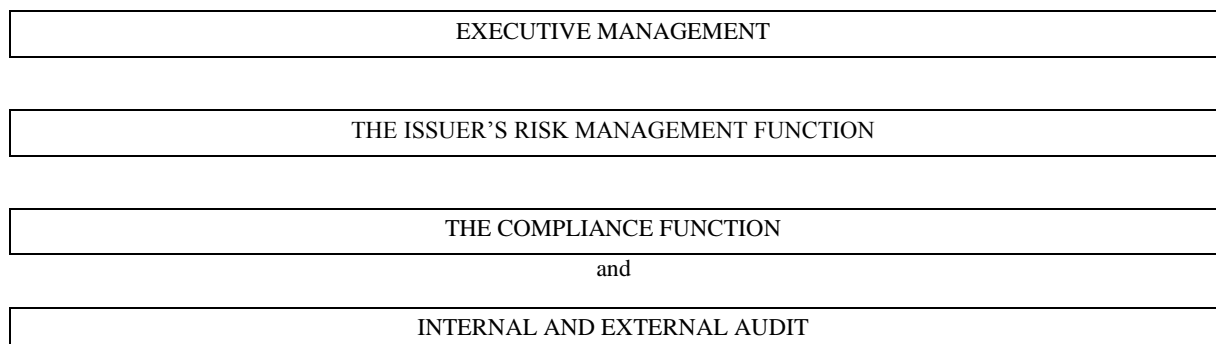
The primary board committees overseeing risk governance for the New HoldCo board are the Group Risk and Capital Management Committee and the Group Audit and Compliance Committee.

All necessary board committees have been formed at the New HoldCo level, while Subsidiaries InsureCo and the Issuer, under the direction of their individual boards of directors, will manage their businesses in the context of the Group's specified risk parameters and under the supervision also of the New HoldCo board committees.

Set out below are the roles and responsibilities of these committees.

- Group Risk and Capital Management Committee oversees the entire Group's risk matters including but not limited to developing a risk mitigation strategy to ensure that the Group manages risks optimally, as well as ensuring that capital management is adequately managed throughout the Group; and
- Group Audit and Compliance Committee is responsible for evaluating the adequacy and effectiveness of the internal control systems, accounting practices, information systems and the auditing process applied.

The Issuer has implemented a holistic and integrated risk management framework comprised of the following key role players:



Executive management plays a key role in determining which risks to assume (within the Issuer's identified risk parameters), ensuring that risk management in the Issuer is appropriately resourced and adopting policies and processes that seek to ensure the right level of awareness of risk management in the business.

The Issuer's risk management function, headed by the Chief Risk Officer, advises and supports the board of directors and the executive team. It provides independent assessment and monitoring of risk thresholds and business processes - also in the context of regulatory and internal requirements. It evaluates findings from internal and external audit and assists in communicating board and regulatory direction to the business units.

The compliance function is a separate division within risk management. It reports to the Chief Risk Officer, although the Chief Compliance Officer may also approach the Chief Executive Officer directly. The compliance function is broadly tasked with supporting and interrogating business unit management regarding completeness and accuracy of compliance risk management practices; monitoring the Issuer's compliance with laws, regulations and internal policies; reporting to regulators and the Issuer's executives on compliance-related matters, as well as interacting with regulators and associations in relation to same. Compliance champions are also located in each business unit, assisting with day-to-day compliance issues.

Internal audit provides independent assurance that internal control systems have been implemented, are functioning and are properly monitored and reported. Although internal audit reports to the Chief Risk Officer, it also reports directly to the Group Audit and Compliance Committee.

Key Risks

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss. As the Issuer's primary business currently is the underwriting of unsecured loans, credit risk features as the dominant financial risk within the Issuer. The Issuer applies the standardised approach as defined in the Regulations Relating to Banks to measuring its exposure to regulatory credit risk and required credit risk capital and reserve funds.

Mitigation Strategy

Credit risk management and monitoring is predominantly executed utilising the following:

- Continuous development and improvement of proprietary scoring models for underwriting, affordability assessment, portfolio performance and collection activity;
- Customer and risk focused product development together with appropriate risk-based pricing; and
- Effective monitoring to ensure that the outcomes of the scoring models match the assumptions and understanding of the sensitivity of credit risk metrics and trends to various risk parameters.

With regard to the monitoring of risk, this takes place at two levels: operational and tactical. The operational monitoring takes place online each day to ensure that the processing of applications is compliant and no processing discrepancies are left unattended. For purposes of the tactical level monitoring, (i.e. decisions about product and pricing) each business unit compiles an extensive monthly credit pack for submission to the credit committee which will form the basis for their review and decision process.

The primary tools used for credit risk monitoring are:

(1) Credit scoring model

Credit scoring is a quantitative measure of the performance and characteristics of past loans to predict the future performance of loans with similar characteristics. Credit scoring is a scientific method of assessing the credit risk associated with new credit applications. The models derive predictive relationships between applications information and the likelihood of satisfactory repayment. The model is developed from information gained through prior experience.

(2) Pricing model

In developing product terms and pricing, the Issuer constructs the price of each loan offer based on the building blocks of the weighted average cost of capital cost absorption and risk for the particular loan. The Issuer will continue to refine its underwriting and pricing model in order to optimise its position in the market.

(3) Collections trends and credit impairment model

In order to be able to make appropriate provisions, actual receipts relative to expected cash flows, as well as the migration of loans into non-performing status, are monitored on a monthly basis to discern emerging trends and to inform credit decisions and provisions.

The credit impairment model addresses the following key criteria:

- Current credit metrics and forecast;
- Historical credit metrics;
- Management's evaluation of the credit cycle;
- Other important credit indicators such as borrower behaviour; and
- Recent trends in economic conditions.

(4) Affordability model

This is used to determine the financial means and prospects of a customer, the customer's existing financial obligation and their debt repayment history. The assessment includes calculating the customer's discretionary income and taking into account all debts, including monthly debt repayment obligations as reflected on the customer's credit profile held by the credit bureau. This also takes into account maintenance obligations arising from statutory deductions or necessary expenses.

Other Financial Risks

While the Chief Financial Officer of the Issuer is responsible for ensuring that appropriate financial risk management and controls are in place and adhered to, the financial risk within the Issuer is managed and monitored through the Group Assets and Liabilities Committee ("ALCO") and includes *inter alia* the following:

- Liquidity risk;
- Variable Rate risk;
- Concentration risk;
- Market risk;
- Currency risk; and
- Solvency risk.

The Issuer's approach to the above risks is to recognise that it is the business of the Issuer to take credit risk on its customers. In view of this, the ALCO guides management either to eliminate, mitigate or manage all of these other financial risks to the greatest degree possible. In the treasury environment specifically, this implies that the Issuer has a low risk appetite for liquidity or variable rate risk. The role of the ALCO is therefore not to generate profit by taking unnecessary financial or market risk but rather to provide sustainable funding with minimal associated financial and market risk to the Issuer and, in turn, to be a custodian of the Issuer's surplus funds.

Mitigation Strategy

The Issuer's strategy is to raise funds from a diversified group of funders within the wholesale, institutional, retail deposit and fund management market and maintain a diversified portfolio of funding instruments and maturities. The funds so raised should principally be of a longer-term nature and have a fixed or variable rate of interest, depending on the funder's preference. The funds have been and will be utilised predominantly to invest in personal loans that have a shorter-term nature and also have a fixed-rate of interest and a credit card product, where interest is charged on a variable basis, linked to the prime rate of interest.

A certain portion of borrowed funds may well be used for operational and other costs or similar requirements. Any excess cash is invested in the local money market and a diversified group of the largest banks operating in South Africa with a maturity profile that ensures the Issuer is able to fund short-term outflows. The amount and tenor that can be invested at each such bank is limited according to various criteria. This policy is reviewed by ALCO periodically to ensure both relevance and operational flexibility of cash management is ensured.

This strategy has the following effect:

Liquidity Risk – the longer term nature of the Issuer's funding liabilities compared to the relatively shorter-term nature of its personal loans and money-market deposits, as well as the diversified portfolio of funding, allows the Issuer to reduce the potential impact of a loss of confidence, which may precipitate a liquidity concern. This risk is further reduced by the maintenance of a cash balance large enough to fund the liabilities that could become repayable in such a scenario (as well as to pay for normal operating costs and other committed obligations).

The ALCO monitors operational cash flow requirements and forecasts. These forecasts help inform management of when and what forms of funding are needed. Various scenarios test and assess the Issuer's ability to withstand a market or systemic crisis situation, allowing this committee to make operational adjustments as required. See "*Liquidity of the Issuer*" for further detail on the Issuer's liquidity position.

Variable Rate Risk (JIBAR- and CPI-linked instruments) – as most of the Issuer's personal loans advanced and money-market deposits have a fixed rate of interest, the Issuer matches that with predominantly fixed rate funding. 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 Issuer to floating interest rate returns, an increasing portion of the funding raised by the Issuer will be done on a floating rate basis, thus matching the Issuer's assets to its liabilities.

Concentration Risk - by not overly exposing itself to any one funder or to any one deposit taking institution in the money market and by ensuring that the portfolio of funding liabilities has diversified maturities, the Issuer is able to reduce both counterparty and redemption risk (which are both subsets of concentration risk).

The Issuer is able to source funds by, *inter alia*, accepting demand deposits, term deposits and borrowings, certificates of deposits, NCD's, commercial paper and inter-corporate deposits, as well as issuing bonds or debentures.

The type of borrowings that may be utilised is recommended by the ALCO and must be within the limits determined by the Group Risk and Capital Management Committee.

Market Risk – as the Issuer currently does not trade in any marketable securities and tends to hold any marketable securities until maturity, it is not materially exposed to market risk.

Currency Risk – as the Issuer conducts all its operations locally, its operational exposure to currency risk is minimal. Although certain expenditures are sometimes made in foreign currencies, these amounts are immaterial. Where funding is sourced from foreign sources, such as in the case of this Programme, the interest and capital repayment obligations are converted into effective Rand obligations with minimal future currency risk by way of entering into foreign exchange derivatives or other similar methods which have the same economic effect.

Solvency Risk – Solvency risk can be defined as the risk that the assets of the Issuer, fairly valued, are insufficient to cover all of the liabilities of the Issuer, fairly valued, which may also result in the Issuer not being able to pay its debts as they become due in the course of business. The risk appetite for solvency risk is taken into consideration and is monitored periodically.

Capital adequacy risk

Capital adequacy risk is the risk that the Issuer will not have sufficient capital reserves to meet adverse market conditions beyond those which have already been factored into the business model. Capital adequacy is measured by expressing capital as a percentage of risk weighted assets. The Banks Act specifies the minimum capital required to be held by the Issuer in relation to risk weighted assets.

The Issuer is required to maintain adequate capital levels to:

- safeguard its operations and stakeholders against risk and to allow it to grow; and
- meet its minimum Basel III regulatory requirements and additional capital add-ons and floors as specified by SARB.

Capital Adequacy risk governance is applied through the ALCO, and reported to the Group Risk and Capital Management Committee. The Issuer will have a specialised Balance Sheet Management function. Capital adequacy is to be monitored, on a current to three-year view based on the Issuer's financial forecasts, through the ALCO to ensure that the business is adequately capitalised to achieve its objectives.

The Issuer intends to maintain internal capital buffers (over and above the specified regulatory minimums) which take into account growth, stakeholder requirements, internal capital requirements and developing legislation (i.e. Basel III phase in requirements to cater for increasing minimum requirements up to 2019). The Leverage Ratio and net stable funding ratios are also monitored on monthly basis and reported to ALCO. See “*Equity and Capital in the Issuer*” for further detail on the Issuer's capital adequacy and related matters.

Operational Risk

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

The type of operational risk events that have the potential to result in substantial losses include internal fraud; external fraud; employment practices; disregard of bank policies, strategies, guidelines, rules and regulations; inappropriate clients, products and business practices; damage to physical assets; business disruption including system failure; and execution, delivery and process management failure.

Mitigation Strategy

While operational risk can never be totally eliminated, it is the responsibility of the operational risk management function to ensure that operational risk is well mitigated and properly managed. The objective of the Issuer's operational risk management function is to:

- Focus on key risks in the organisation 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;
- Ensure that policies, standards, procedures and systems are continuously developed 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 across all business units; and
- Ensure regulatory compliance.

Strategic Risk

Strategic risk arises from the inability to implement appropriate business plans, strategies, decision making and resource allocation, as well as the inability to adapt to changes in the business environment. As such they are key matters for the Issuer's board and have an impact on the entire business, rather than just an isolated unit.

The Issuer's board and senior management are chiefly responsible for setting corporate strategy and reviewing management performance in implementing the Issuer's strategic plan. In turn, senior management has a duty to ensure that there is an effective strategic risk management process by transforming the strategic direction given by the Issuer's board through policy. To do this, senior management should have an understanding of the nature and level of the various risks associated with the Issuer's strategic plan and the level of risks within the overall business strategies.

Mitigation Strategy

The Issuer's board should have a clear understanding of the corporate strategy, the risks of adopting the strategy and the risks in executing same. The strategic goals have been incorporated in the business plan.

The risk appetite for new strategies is also taken into consideration, quantifying how much risk the Issuer is prepared to take to deliver its objectives and a timely and reliable evaluation of how much risk it is actually taking.

The Issuer's board and senior management oversight is an integral part of an effective strategic risk management programme. The Issuer's board retains the overall responsibility for strategic risk management of the Issuer.

Reputational Risk

Reputational risk concerns the risk that an activity, action or stance taken by an organisation or its officials will impair its image in the community, the long term trust placed in the organisation by its stakeholders and this will result in the loss of business and/or threatened legal action.

Mitigation Strategy

The Issuer's approach and philosophy toward reputational risk is to aggressively manage the potential for reputational damage on a pro-active basis. The biggest contributor to reputational risk is the potential for reckless credit being granted. The following processes are implemented to reduce that risk:

- Automated credit granting process, which minimises the risk of inappropriate practices being subjectively applied by different employees of the Issuer; and
- Internal independent ombudsman office.

External communications in respect of reputational-sensitive matters will be limited to the most senior executives with a thorough understanding of the issues and the reputational damage implications. The Issuer's board also maintains communications guidelines to ensure the provision of relevant and timely information to stakeholders on a regular basis and in a crisis situation as part of a responsible communications programme.

Compliance Risk

Compliance risk refers to the risk of regulatory sanctions and/or material financial loss, where the controls implemented by the Issuer to facilitate compliance with the applicable statutory and regulatory requirements are inadequate or inefficient, or loss to reputation that the entity may suffer as a result of its failure to comply with applicable legislation, regulations and rules related voluntary codes and standards.

The frequent changes in the regulatory environment makes this a more costly and onerous risk to manage. The compliance universe of the Issuer consists of all the statutory and regulatory requirements of relevant legislation, regulations and industry codes applicable to the business and sound management of the Issuer.

Mitigation Strategy

The Issuer accepts and adopts a rigorous and proactive approach to all its regulatory responsibilities through the Group Risk and Capital Management Committee and the compliance teams. Risks are managed through internal policies and processes, which include risk management, legal, compliance and other technical requirements relevant to the business.

The Issuer also has proactive and ongoing engagements with the relevant regulatory and supervisory authorities to understand, ahead of time, what the possible specific interventions could be and to prepare for readiness in order to minimise the effect of additional and amended laws and regulations.

The Issuer has established a dedicated compliance function in the Issuer as prescribed by the regulation 49 of the Regulations Relating to Banks. The compliance function manages the Issuer's compliance risk.

GOVERNANCE

The Issuer's board and senior management are committed to the highest standards of corporate governance. It is important to note that since this is a newly established board of directors in a newly established bank, some of the governance principles may take a period of time to fully mature. The Issuer's board is, however, committed to complying, in all material respects, with the Banks Act and the King Code of Governance Principles which set out a framework of good governance applicable to banks and public companies and to implement these as rapidly as possible. It has already established an appropriate governance structure within the context of being a Subsidiary of a bank holding company. The Issuer complies with King III as at the date of this Base Prospectus.

The Issuer's Board of Directors and Management

Composition of the Issuer's Board

The Issuer's board bears overarching responsibility for the business and affairs of the Issuer. Specifically, it must determine, review and guide corporate strategy, risk policy, annual budgets and business plans; it must monitor corporate performance and oversee major capital expenditures, acquisitions and disposals, information technology and stakeholder relationships.

The Issuer has a new board, a new chief executive and new appointments in key management positions to take the business forward and exploit the opportunities available. All of these appointments have been approved by SARB.

The boards of New HoldCo and the Issuer comprise of the same individuals, and will do so at least for the initial period following implementation of the Restructuring. It may however become appropriate to introduce new or different skills on the various boards if the need arises in future.

Due to the distinct business and regulatory regime for banks and insurers, although there will be several common directors, the composition of InsureCo's board will not be identical to the compositions of the boards of New HoldCo and the Issuer. Good corporate governance is critical to the success of the Issuer and the new board is committed to applying the principles of good governance, transparency, integrity, and accountability in its administration of the Issuer.

Eight directors (including the proposed new Chief Executive Officer, Chief Financial Officer and Chairman of the Issuer) have already been identified and have agreed to act as directors of New HoldCo and the Issuer. It is intended that an additional non-executive director will be nominated for appointment in the near future, as SARB approval is obtained. The King Code states that the chairman of a board should be independent and non-executive and should not be the same person as the chief executive officer. The designated chairman of the Issuer's board satisfies these criteria. The composition of the Issuer's board will take into account the independence requirements of the non-executive directors, thereby complying with the requirements of the King Code. The non-executive directors of the Issuer's board will have diverse backgrounds and expertise and will contribute a wealth of experience to the executive management of the Issuer in critical areas of expertise.

The current directors of the Issuer's board are all South African nationals. Their designations and executive roles within the Issuer (as applicable) are set out below.

Name	Designation
Louis L. von Zeuner	Independent Non-Executive Chairman
Brian Riley	Chief Executive Officer and Executive Director
Gustav Raubenheimer	Chief Financial Officer and Executive Director
Basani Maluleke	Independent Non-Executive Director
Frans Johannes Christiaan Truter	Independent Non-Executive Director
Ignatius Simon Schoole	Independent Non-Executive Director
Louisa Stephens.	Independent Non-Executive Director
Sybille Liane McCloghrie	Independent Non-Executive Director

The business address of the members of the board of the Issuer is 59, 16th Road, Midrand, 1685, South Africa. Further information of the members of the board is set out below.

Louis Leon von Zeuner (54)	Mr. von Zeuner is a graduate of Stellenbosch University. He is the chairman designate of the Issuer and New HoldCo and currently serves on the boards of directors of a number of companies (see below). He spent 32 years at Absa Group Limited (now Barclays Africa) (" Absa ") during which time he acted in various key executive roles. For the three years ending in December 2012, he
Chairman; non-executive director	
B.Econ (Stellenbosch)	

was the Deputy Group Chief Executive of Absa. From 2007 to 2009 he was the Group Executive Director for Retail and Business Banking at Absa and for the four years prior to that he was the Group Executive Director for Retail Banking at Absa.

Other directorships: AFGRI Limited, Cricket South Africa, South African Rugby Union, Eqstra (Proprietary) Limited, MMI Holdings Limited, MMI Group Limited, Telkom SA Limited, Mahela Boerdery (Proprietary) Limited, MyPlayers (Proprietary) Limited and Paycorp Investments (Proprietary) Limited.

Brian Riley (58)

Chief Executive Officer of the Issuer;
Advanced Executive Programme
diploma (University of South Africa),
Advanced Management Programme
(Harvard Business School)

Mr. Riley has agreed to serve as the Chief Executive Officer of the Issuer. Mr. Riley retired in December 2013 after serving seven years as the Chief Executive Officer of WesBank, a division of FirstRand Bank Limited. As Chief Executive Officer, he oversaw a successful period of growth for WesBank. During this time he was also a member of the FirstRand Bank Limited committee responsible for the formulation and execution of group strategy. Before his time at WesBank, Mr. Riley occupied various executive positions at Lloyds and Scottish Finance Group, the Provident Financial Group and Clerical Medical and General Assurance Society.

Gustav Raubenheimer (45)

Chief Financial Officer
B.Comm (Hons), CA (SA)

Mr. Raubenheimer is the Chief Financial Officer designate of the Issuer. Mr. Raubenheimer graduated from the University of Pretoria with a Bachelor of Commerce (Honours) degree, majoring in accounting. He qualified as a chartered accountant in 1994 and as a certified financial analyst in 2003. Mr. Raubenheimer has worked for African Bank since 2012 as an executive in credit, customer analysis and strategy. Prior to joining African Bank, Mr. Raubenheimer held key positions at Absa Bank, Nedbank Group and FirstRand Bank (FNB division).

Ignatius Simon Schoole (55)

Independent non-executive director
B.Com, B.Compt (Hons), CA(SA)

Mr. Schoole holds a Bachelor of Commerce degree from Vista University in Pretoria and a Bachelor of Computer Science (Honours) degree from the University of South Africa. He qualified as a chartered account in 1991. Since 2013, Mr. Schoole's occupation has been to serve as a non-executive director on the boards of various companies (see below), several of which directorships he has held for a number of years. Mr. Schoole was Group Executive of Business Risk Management at MTN Group Limited from 2010 to 2013. Prior to that, he was the Deputy Chief Executive Officer of PricewaterhouseCoopers Southern Africa. From 2000 to 2009 he was the Executive President of the South African Institute of Chartered Accountants.

Other directorships: MTN Operations (Swaziland, Rwanda), Mascom (Botswana), Harith Fund Managers (Proprietary) Limited, SacOil Holdings Limited, CAPIM (Proprietary) Limited

and AFGRI (Proprietary) Limited.

Sybille Liane McCloghrie (59)

Independent non-executive director

B.Com (Hons) (Unisa), MBA (Heriot-Watt University Edinburgh)

Ms McCloghrie completed her undergraduate degrees at the University of South Africa and her MBA at Heriot-Watt University Edinburgh. Since 2005 she has been the Chief Executive Officer of Symelation Holdings (Proprietary) Limited, a technology based company serving, amongst others, financial institutions as well as providing accessible business solutions to small-, medium- and micro sized enterprises. Prior to this, Ms McCloghrie was responsible for the commercialisation and international expansion of Tilos (Proprietary) Limited, a South African entity operating in the software product development and consultancy space. From 1989 to 2001, Ms McCloghrie worked in various executive roles in service delivery and business development roles at FirstRand Bank Limited (where she attained her banking qualifications), AECI Information Services (Proprietary) Limited, Electronic Data Systems and IBM Global Services

Other directorships: Symelation Holdings (Proprietary) Limited.

Frans Johannes Christiaan Truter (60)

Independent non-executive director

B.Com (Hons), CA (SA), AMP (Oxford)

Mr. Truter holds a B.Com (Honours) Degree, is a qualified CA (SA) and has an A.M.P. (Oxford) qualification. Mr. Truter served as the Chief Financial Officer of Momentum Group Limited from 1988 to 2004. He then served as the Director of Strategic Investments for Momentum Group. Mr. Truter has been an Independent & Non-Executive Director of MMI Holdings Limited since 2010. He holds a number of other directorships, including those set out below.

Other directorships: MMI Group Limited, Momentum Global Investment Management Limited, MMI Holdings (UK) Limited, Momentum Investments (Proprietary) Limited, Hyphen Technology (Proprietary) Limited, Nodus Equity (Proprietary) Limited.

Basani Maluleke (38)

Independent non-executive director

B.Com (Hons), LLB, MBA

Ms Maluleke holds a Bachelor of Commerce degree majoring in accounting and a Bachelor of Laws degree, both from the University of Cape Town, and obtained her MBA from the Kellogg School of Management, USA in 2011. Ms Maluleke worked as a senior dealmaker at Rand Merchant Bank from 2005 to 2009, and joined First National Bank in 2011 as part of an executive management rotation programme. She is currently a director of Transcend Capital (Proprietary) Limited and African Century Ventures (Proprietary) Limited, of which she is also a co-founder.

Other directorships: Transcend Capital (Proprietary) Limited, African Century Ventures (Proprietary) Limited,

A.T. Kearney (Proprietary) Limited and Ata Capital (Proprietary) Limited.

Louisa Stephens (39)

Independent non-executive director

B.Comm (Hons), BBusSc
(Finance), CA (SA)

Ms Stephens holds a Bachelor of Commerce (Honours) degree from the University of Johannesburg and a Bachelor of Business Science degree from the University of Cape Town. Ms Stephens qualified as a chartered accountant in 2003, having served her articles at KPMG. Ms Stephens worked as a transactor and credit analyst in structured finance at Rand Merchant Bank for five years. Thereafter, Ms Stephens occupied various key positions at the National Empowerment Fund, Circle Capital Ventures, Sasol Group Finance and Nozala Investments (Proprietary) Limited.

Other directorships: Greymatter and Finch (Proprietary) Limited, South Ocean Holdings Limited and Royal Bafokeng Platinum Limited.

None of the directors has a potential conflict of interest between any of their duties to the Issuer and either their private interests or other duties.

The Issuer's board appointment process and term limits

Future non-executive directors will be appointed, subject to re-election and to the applicable provisions of the Issuer's memorandum of incorporation and the Companies Act relating to removal, and will be required to retire by rotation every three years. Re-appointment of non-executive directors is not automatic. All appointments are subject to approval from SARB and fit and proper tests in terms of the Banks Act, as well as to the requirements of the Companies Act 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.

The New HoldCo Group has an approved term limit policy which applies also to the Issuer's board, limiting the service tenure of the chairman of the Issuer's board 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.

Succession planning

The Group Remuneration Committee and the Group Directors' Affairs/Nominations Committee will review succession planning as a regular item on their respective agendas.

The Group's Directors' Affairs/Nominations Committee, in line with its terms of reference, from time to time will review the general composition of the board of directors and make appropriate recommendations on the appointment of new executive or non-executive directors.

Meetings

The Issuer's board will meet quarterly. One of these quarterly meetings will coincide with the requirement to approve the annual financial statements and one further meeting will be scheduled to review the strategic plans and resulting budgets. Additional meetings will be convened as and when necessary.

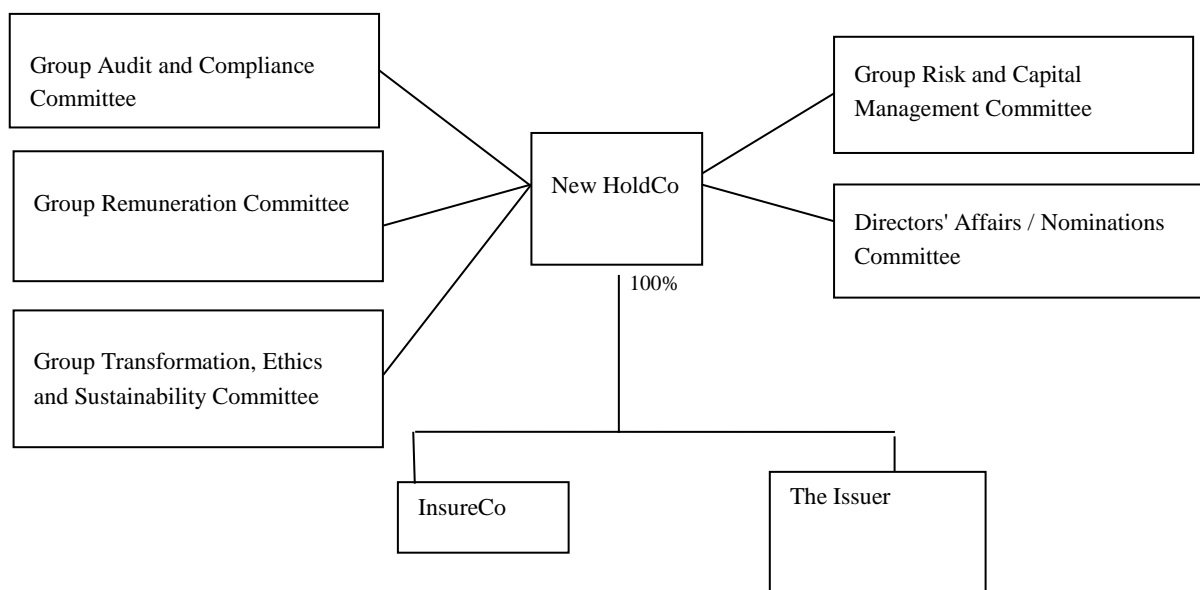
To fulfil their responsibilities, the Issuer's board members will have access to accurate, relevant and timely information. Any director may call on the advice and services of the Issuer's company secretary, who gives guidance on legislative or procedural matters.

Independent advice

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

Governance structure

All necessary board committees have been formed at the New HoldCo level, while Subsidiaries InsureCo and the Issuer, under the direction of their individual boards of directors, will manage their businesses in the context of the Group's specified risk parameters and under the supervision also of these committees. The Group organogram is set out below, providing a graphic representation of the governance committees in the Group.



The New HoldCo has the following permanent board committees as at the date of this Base Prospectus:

- a Group Audit and Compliance Committee;
- a Group Risk and Capital Management Committee;
- a Group Remuneration Committee;
- a Group Transformation, Ethics and Sustainability Committee; and
- a Group Directors' Affairs/Nominations Committee.

Each of the above committees will have a clearly defined mandate, set out in their respective committee charters.

The New HoldCo board committees set out above will, as part of their mandates, also assist the Issuer's board in discharging its duties by overseeing the operations of the Issuer. Policies and practices established in New HoldCo will also apply throughout the Group.

Three management committees will play a key role in the governance of the Issuer. They are the Assets and Liability Committee ("ALCO"), the Information Technology Steering Committee and the Credit Committee.

A high-level overview of each of New HoldCo's standing committees are set out below.

The Group Audit and Compliance Committee

The New HoldCo Group Audit and Compliance Committee (the “**Group Audit Committee**”), as at the date of this Base Prospectus, includes three non-executive directors of the New HoldCo board. The members are appointed by the New HoldCo board from amongst the non-executive directors in compliance with the Banks Act.

The main purpose of the Group Audit and Compliance Committee is to assist the New HoldCo board in discharging its duties to the Group 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 New HoldCo Group.

The Group Audit and Compliance Committee has an independent role with accountability both to the New HoldCo board and to the shareholders, but does not assume any management function.

The Group Risk and Capital Management Committee

The Group Risk and Capital Management Committee (the “**Group Risk and Capital Management Committee**”) comprises two non-executive directors of the Issuer’s board as at the date of this Base Prospectus with the intention to increase this to three non-executive directors.

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

The Group Remuneration Committee

The New HoldCo Group Remuneration Committee (the “**Group Remuneration Committee**”) comprises three non-executive directors of the Issuer’s board as at the date of this Base Prospectus. The role of the Group Remuneration Committee is to support and advise the New HoldCo board in fulfilling its responsibilities to shareholders, employees and other stakeholders by ensuring that employees of the Group 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 Group Directors’ Affairs/Nominations Committee

The New HoldCo Group Directors’ Affairs/Nominations Committee (the “**Group Directors’ Affairs/Nominations Committee**”) comprises three non-executive directors as at the date of this Base Prospectus and will be chaired by the chairman of the New HoldCo board. The Group Directors’ Affairs/Nominations Committee will assist the New HoldCo board in discharging its responsibility for ensuring the existence of adequate and effective corporate governance throughout the Group that is consistent with the nature, complexity and risks inherent in the business of the Group, specifically in the context of the business of a Bank. This ensures a balance of power and authority, such that no one individual has unfettered powers of decision making. It is also responsible for facilitating the appointment of directors to the boards of the Group companies.

The Group Transformation, Ethics and Sustainability Committee

The Group Transformation, Ethics and Sustainability Committee (the “**Group Transformation, Ethics and Sustainability Committee**”), as at the date of this Base Prospectus, comprises three non-executive directors

of the New HoldCo board. The responsibility of the Group Transformation, Ethics and Sustainability 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 New HoldCo Group. The Group Transformation, Ethics and Sustainability and Transformation Committee will also assist and guide management in the execution of its transformation agenda.

Conflicts of Interest

The Issuer's board has adopted a number of principles for the purpose of regulating the conduct, ethics and operations of the Issuer's board, which are to be contained in the board's charter. As part of this, board members will be 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 the Issuer. In this regard, all directors have access to the chairman of the board and the chief executive officer of the Issuer and of New HoldCo in order to discuss potential conflicts. Directors are required to declare their interests in matters discussed at board meetings and to recuse themselves from discussions should there be a potential conflict of interest.

Director induction and training

The induction, training and development of directors is conducted through a process consisting of:

- providing directors with information relating to policies, processes, charters, minutes of meetings, results, financials and other material relevant to their taking up office as a director; and
- affording directors an open invitation to visit the operational divisions of the Issuer, to meet with management and attend management meetings.

Additionally, all directors will be encouraged, at the cost of the business, to attend external courses presented by an institution of their choice.

Communication

The Issuer's board is committed to transparent and effective communication with its stakeholders. In this regard, the board will adopt communication guidelines to ensure the provision of relevant and timely information to stakeholders on a regular basis, as part of a responsible communications programme.

THE BANKING SECTOR AND RELEVANT REGULATIONS IN SOUTH AFRICA

INTRODUCTION

The Issuer is subject to government regulation in South Africa. Regulatory agencies have broad jurisdiction over many aspects of the Issuer'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 (SARB), several large, financially-strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have also established representative offices or branches in South Africa. The South African Government (the "**Government**") is part of the G20 group of nations and is a subscriber to the IMF and World Bank regulations, policies and review processes and is a member of the International Liaison Group of the Basel Committee on Banking Supervision ("**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 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, settlement finality and reduce systemic and other risks in inter-bank settlements. These developments have brought South Africa in line with international inter-bank settlement practice. Electronic banking facilities are extensive, with a nationwide network of automatic teller machines ("**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

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. SARB derives its powers from the Constitution of South Africa, 1996 and the South African Reserve Bank Act, 1989 (the "**SARB Act**"). In terms of the SARB Act, SARB must, among other things, perform such functions of bankers and financial agents as central banks customarily perform. The Banking Supervision Department of 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, *inter alia*, to incorporate the requirements issued by the BCBS. New HoldCo is a registered bank controlling company under the Banks Act and the Issuer is a registered bank under the Banks Act.

In terms of the Banks Act, the Bank Supervision Department of SARB, among other things, supervises banking groups on a consolidated basis from the bank controlling company downwards. In this regard, controlling companies of banks are required to submit, on a quarterly basis, a consolidated supervision return which includes information on all of the entities within that banking group that potentially constitute a material or significant risk to that banking group. The return covers issues such as group capital adequacy, group concentration risk, intra-group exposures and group currency risk. Moreover, a bank controlling company is also required to furnish the

regulator, on a quarterly basis, with bank consolidated and group consolidated information which includes a detailed balance sheet, an off-balance sheet activities return and an income statement.

A banking group is required to satisfy the regulator's requirements in respect of the adequacy and effectiveness of its management systems for monitoring and controlling risks, including those in its offshore operations, if any, and the integrity of its accounting records and systems. Banking groups are required to comply with the provisions of the Banks Act as well as with all financial and prudential requirements, including minimum capital and liquidity requirements, which are actively monitored by the banking regulator. In addition, banking groups have to satisfy the banking regulator's requirements pertaining to issues such as overall financial soundness worldwide, including the quality of its loan assets and the adequacy of its provisioning policy. As part of its supervisory process, the banking regulator undertakes on-site and off-site examinations. The banking supervisor seeks to apply the Core Principles for Effective Banking Supervision as issued by the BCBS.

Currently the banking industry works within a three-tiered framework:

- (a) the Banks Act (effecting changes to the Banks Act requires Parliamentary approval);
- (b) the Regulations Relating to Banks (changes to the Regulations Relating to Banks require the approval of the Minister of Finance); and
- (c) Banks Act circulars, directives and guidance notes:
 - (i) circulars may be issued by the Registrar of Banks to furnish banks with guidelines regarding the application and interpretation of the provisions of the Banks Act;
 - (ii) guidance notes may be issued by the Registrar of Banks in respect of market practices or market and industry developments; and
 - (iii) directives may be issued by the Registrar of Banks, after consultation with the affected parties, to prescribe certain processes or procedures to be followed by banks with regard to certain processes or procedures necessary in the administration of the Banks Act. It is obligatory for banks to comply with such directives.

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 and the Regulations Relating to Banks. 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 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. SARB also carries out various supervision activities related to compliance with the money laundering legislation (the Financial Intelligence Centre Act, 2001, as amended ("**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.

Apart from frequent informal contacts between analysts of the Banking Supervision Department of SARB and their allocated banks, formal interaction between SARB and each bank includes, as a minimum, a quarterly prudential meeting with the executive management and various risk managers of each bank, a pre-audit planning

meeting with the external auditors of each bank, annual trilateral discussions with the management and auditors of a bank, and annual presentations from a bank's entire board of directors.

Financial Intelligence Centre (“FIC”)

The FIC has been established in terms of FICA, 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 commercial 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.

National Credit Regulator (“NCR”)

The NCR oversees market regulation and supervision of the retail credit industry, including unsecured lending. The National Credit Act, 2005, as amended 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, 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 long-term insurers, as well as regulating financial services providers who sell financial products as regulated in terms of the Financial Advisory and Intermediary Services Act, 2002 (the “**FAIS Act**”).

It is envisaged that the FSB will be transformed into a dedicated market conduct regulator to be known as the Financial Sector Conduct Authority under the Twin Peaks model of financial sector regulation to be implemented in South Africa (see “*Regulatory Developments – Implementing a twin peaks model of financial regulation in South Africa*” below).

PRINCIPAL LEGISLATION

Banks Act, 1990 and Regulations Relating to Banks

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. In addition, in terms of the Banks Act, only registered banks and branches and representative offices of foreign banks are permitted to solicit or advertise for deposits.

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.

As indicated above, South African banks are required to comply with the Banks Act, the Regulations Relating to Banks and certain other circulars, guidance notes and directives, and 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. 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. 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. 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. On 29 June 2015, the Banks Amendment Act 3 of 2015 was passed into law which clarified that any other disposal of assets and/or transfer of liabilities by a curator must be done in accordance with section 54 of the Banks Act which requires Minister of Finance or, in some cases, Registrar of Banks approval. In seeking such approval, the curator must report on the expected effect of such a disposal of assets and/or transfer of liabilities on the bank's creditors and whether (i) the creditors are treated in an equitable manner; and (ii) a reasonable probability exists that a creditor will not incur greater losses, as at the date of the proposed transaction, than would have been incurred if the bank had been wound up on such transaction date. Even if these effects are not achieved, the Minister of Finance or the Registrar of Banks, as the case may be, may consent to the transaction, if it is reasonably likely to promote the maintenance of (i) a stable banking sector in South Africa; or (ii) public confidence in the banking sector in South Africa.

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 through the Regulations Relating to Banks, with various phases and transitional arrangements through 31 December 2018.

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 that can be converted into cash easily and immediately in order to offset the cumulative net cash outflows it would encounter under an acute short-term (30 day) liquidity stress scenario on an ongoing basis;
- 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, namely (i) 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 (ii) 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, to be fully effective from 1 January 2019;
- introduces new features for non-common equity capital instruments. These instruments must, either in terms of their contractual terms or, if applicable, under an appropriate statutory loss absorption regime, 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 or there is a decision to make a public sector injection of capital into the bank without which the bank would become non-viable; and

- requires that non-common equity capital instruments issued before 1 January 2013, which do not meet the Basel III loss absorption 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 Basel III.

A 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 a bank’s financial flexibility in the face of any turbulence and uncertainty in both the local and global economy.

As described above, Basel III prescribes two minimum liquidity standards for funding liquidity, namely an LCR, which became 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 an NSFR, which is expected to become effective in South Africa on 1 January 2018 and aims to promote medium and long-term funding of banks’ assets and activities. The NSFR will be subject to an observation period and include a review clause to address any unintended consequences.

The minimum requirement of the LCR in South Africa will follow the internationally agreed phase-in arrangements (and in which ratio, the LCR numerator is the aggregate value of the qualifying high quality liquid assets a bank holds, and the LCR denominator constitutes the total net cash outflows to address potential maturity mismatches in the bank’s outflows and inflows within the 30-calendar-day period), which are as follows:

- 1 January 2015 60 per cent.;
- 1 January 2016 70 per cent.;
- 1 January 2017 80 per cent.;
- 1 January 2018 90 per cent.;
- 1 January 2019 100 per cent.

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 the Issuer) may, 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 National Treasury. 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, in May 2013 SARB approved the provision of a committed liquidity facility available to banks to assist banks to meet the LCR (see Guidance Note 8 of 2014 titled “*Provision of a committed liquidity facility by the South African Reserve Bank*”).

SARB continues to engage 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. (See “*Risk Factors – Risks relating to the Issuer - The Issuer operates in a highly regulated environment which is subject to change – The Banks Act and regulations relating to banks and liquidity*”).

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 the Issuer constitute Common Equity Tier 1 Capital. The New Subordinated Debt Instruments to be issued by the Issuer described in the section headed “*Capitalisation and Indebtedness – Description of certain indebtedness – Proposed Issuances under the Programme and DMTN Programme*” will be Tier 2 Notes issued under the DMTN Programme and are intended to constitute Tier 2 Capital.

The Basel III requirements require the implementation of certain loss absorption criteria at certain points of non-viability in respect of additional tier 1 instruments and Tier 2 Capital 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 “the most subordinated form of equity” (that is, ordinary shares) upon the occurrence of a trigger event unless, *inter alia*, South Africa, being the governing jurisdiction of the Issuer, has in place laws that require such Tier 1 and Tier 2 Capital 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 (i.e. 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 Regulation 38(13)(b)(i) of the Regulations Relating to Banks in respect of additional tier 1 instruments and Regulation 38(14)(a)(i) of the Regulations Relating to Banks in respect of Tier 2 Capital instruments.

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 the form of Guidance Note 7 as at the date of this Base Prospectus) in this regard. In Guidance Note 7, 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 note, 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 Capital 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 SARB and 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 Tier 2 Notes are issued are likely to remain in force for the capital instruments issued prior to the introduction of the relevant statutory legislation. Despite this, the wording of Guidance Note 7 is unclear on whether Tier 2 Notes that remain subject to the contractual write off/conversion provisions after the commencement of the Statutory Loss Absorption Regime continue to qualify as Tier 2 Capital where such provisions are in conflict with the write off/conversion provisions in the Statutory Loss Absorption Regime

While it has reduced some uncertainties, Guidance Note 7 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 Common Equity Tier 1 Capital 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.

National Credit Act, 2005 (“NCA”)

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 (i.e. retail) credit and 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* (i.e. from the outset).

On 13 March 2015 the National Credit Amendment Act, 2014 came into effect. The amendments therein include, among others:

- provisions requiring the NCR to apply additional criteria relating to a credit provider’s compliance with certain codes of conduct and affordability assessment regulations (which came into effect on 13 March 2015 but the Minister published a notice suspending the implementation and enforcement of the

regulations for a period of 6 months, which period expired on 13 September 2015) as well as such credit provider's commitment to combatting over-indebtedness when the NCR considers the registration of that credit provider in terms of the NCA. This affects 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 enables 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 empowering 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 cost of credit life insurance, being the premium, did not have a monetary limitation but had to be reasonable. The amendment will allow the introduction of a monetary cap on the premium in respect of credit life insurance (see below for proposals made in this regard). Depending on the extent of the limit that the Minister of Trade and Industry may impose, such premium cap 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. The Issuer and other credit providers must 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 such system improvements. This will also impact the ability of the Issuer to collect existing non-performing and written-off loans which have prescribed and applies to all loans in existence at 13 March 2015 and new loans granted thereafter;
- 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", where certain adverse information is removed from a credit bureau's records;
- 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 increases 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 which may 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. (In terms of the debt review process under the NCA, a consumer can appoint a debt counsellor to assess if the consumer is over-indebted and, if so, to devise a payment plan to pay creditors. If the creditors do not agree to that plan, an application can be made to court to have a payment plan approved. A credit provider is entitled to terminate a debt review process after 60 business days have elapsed after the consumer appointed a debt counsellor to do such a review, if the consumer remains in default.) The amendment has the effect that a credit provider is precluded from terminating a debt review application during the period after a consumer has lodged the application in court or Tribunal (as defined below) until such an application for debt review is granted. This may lead to considerable delays due to the congested Magistrates' court processes; and
- granting the 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 allows 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.

On 13 March 2015, the National Credit Act Regulations came into effect with the Affordability Assessment Regulations coming into effect on 13 September 2015. These regulations, among others, include:

- an amendment of the retention period requirements for consumer credit information on the credit bureaus, where the retention period during which most categories of consumer credit information may be displayed were reduced;
- prohibiting the submission of adverse credit information in respect of (i) prescribed debts or (ii) adverse information where no notice has been given to the consumer as required by the regulations, as well as preventing employers or recruiting agencies from accessing consumer credit information unless they certify that any and all requests for such information relate to employment positions requiring honesty in dealing with cash or finances with the job descriptions of such positions are clearly outlined;
- the introduction of the standard criteria for conducting affordability assessments, of which the most significant for the industry are (i) a set of minimum expenses to be used in affordability calculations (some of which are more stringent than the current minimum amounts used historically by African Bank and some of which are less stringent) and (ii) a requirement to verify income against payslips or banks statements (a policy applied by African Bank and adopted by the Issuer in any event); and
- introduction of the requirements and standards for training all registrants under the NCA, including credit providers. For credit providers, the training of staff will cover, among others, the NCA, governance and compliance, customer service, risk management, computer literacy, financial management, business management, and economics.

On 6 November 2015, the Minister of Trade and Industry published amendments to the regulations made under the NCA that will, most significantly, reduce the maximum prescribed interest rate on unsecured credit transactions from $2.2 \times \text{Repo Rate} + 20$ per cent. to $\text{Repo Rate} + 21$ per cent. (which, based on a Repo Rate of 7.0 per cent. at the date of this Base Prospectus, is a reduction of 7.4 per cent. The cap on credit facilities is proposed to reduce from $2.2 \times \text{Repo Rate} + 10$ per cent. to $\text{Repo Rate} + 14$ per cent. The reduced maximum prescribed interest rate will apply with effect from 6 May 2016.

On 13 November 2015, the South African Department of Trade and Industry published draft “*Credit Life Insurance Regulations, 2015*” for comment, which includes, among others, a proposal to limit the cost of credit life insurance. These draft regulations propose that the maximum cost that a credit provider may charge a consumer in relation to credit life insurance, which a consumer is obliged to maintain for the duration of the credit agreement, may not exceed ZAR4.50 per ZAR1 000 (including the cost of any commission, fees or expenses) of the deferred amount, calculated on the total of the consumer's outstanding obligations under the credit agreement. If the credit life insurance cover provides that a consumer's total outstanding obligations will be settled in the event of the consumer being temporarily disabled or being unable to earn an income, the proposed regulations permit that the maximum prescribed limitation of the cost of credit life insurance may be increased by an additional ZAR1.00 per ZAR1 000. The draft regulations also propose the consumer is given the right to substitute an insurance policy of the consumer's choice at any time after the credit agreement has been entered into if the premium and benefits under the new policy are the same as or better than those under the current policy.

For further discussion on NCA risks see “*Risk Factors – Risks relating to the Issuer - The Issuer operates in a highly regulated environment which is subject to change – The National Credit Act and unsecured lending*”.

Long-Term Insurance Act, 1998

Long-term insurance focuses on the life, health and disability events, such as death, disability illness or retirement of a person. Savings may also be done through investment policies but there is a 5 year restriction period on policy benefit payments other than in the event of death, disability and illness events in order to demarcate insurance business from bank business. The long-term insurance business has its own legislation, namely the Long-term Insurance Act, 1998 as amended, (the “**LTIA**”), and dedicated regulations which govern long-term insurers in South Africa and the way they conduct, manage, market and maintain their business. Guardrisk is a registered long-term insurer and is required to comply with the LTIA and the regulations thereunder in all aspects of its insurance business, including the insurance business generated for Guardrisk by the Issuer and ring-fenced in the new insurance “cell” established for InsureCo. (See “*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*”).

The Registrar of Long-term Insurance is currently the market conduct and prudential regulator of long-term insurers in South Africa and is responsible for the registration of long-term insurers. The Registrar of Long-term Insurance has the authority to impose certain conditions of registration and also has the authority to vary any of the conditions that it may impose. A registered insurer may only carry on such business that it is authorised to engage in by virtue of its registration. A long-term insurer is prohibited from issuing certain financial instruments such as preference shares and debentures without the approval of the Registrar of Long-term Insurance. The LTIA also prohibits a person from acquiring or holding shares or any other interest in a registered insurer, which results in direct or indirect control over that insurer, without the approval of the Registrar of Long-term Insurance.

Long-term insurers (including Guardrisk) are required in terms of the LTIA to maintain their insurance businesses in a financially sound condition and on a regular basis submit various financial, compliance and other returns to the Registrar of Long-term Insurance. The kind and spread of assets that an insurer may hold is also regulated in terms of the LTIA and the regulations thereto.

The LTIA also entrenches certain rights of policyholders with a view to protecting policyholders and prohibiting certain business practices. It limits and regulates the fees, commissions and other remuneration that an insurer may pay to remunerate other parties with whom the insurer engages. Contraventions of the LTIA could result in sanctions or penalties being imposed.

Solvency assessment and management framework

In 2009 the FSB and the South African insurance industry embarked on a journey to establish a risk-based supervisory regime for the prudential regulation of both long-term and short-term insurers in South Africa, namely the Solvency Assessment and Management (“**SAM**”) project.

The objectives of SAM have remained the same since the project was first initiated, namely to better protect policyholders and beneficiaries and contribute to financial stability through:

- aligning capital requirements with the underlying risks of an insurer; and
- providing incentives to insurers to adopt more sophisticated risk monitoring and risk management tools.

Through the SAM Governance structure, the development of the SAM framework has been guided by the following principles:

- SAM must be consistent with international best practice in insurance supervision – specifically the Insurance Core Principles as set by the International Association of Insurance Supervisors – and meet the criteria for Solvency II third-country equivalence, while at the same time being appropriate for the characteristics of the South African insurance industry; and
- SAM should be a proportionate, risk-based approach to regulation and supervision with appropriate treatment both for small insurers and large, cross-border groups.

The original full implementation date for SAM was set for 1 January 2016, however in July 2015 the FSB announced a delay in the implementation date. It is expected that the FSR Bill will first be passed in late 2016, which will then be followed by the Insurance Bill which will give effect to SAM. Insurers are however still required to comply with reporting requirements from 1 January 2016 on a parallel run basis to the current regulatory regime that will remain in place for the time being.

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 FSB (“**Registrar of FSPs**”). 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 authorise the rendering of those financial services, or is a representative as contemplated in the FAIS Act.

An “FSP” is defined in the FAIS Act 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 concepts of “advice” and “intermediary service” have been broadly defined to capture almost any engagement in respect of a financial product; the FAIS Act does however provide certain exemptions and exclusions in respect of these concepts. The Registrar of FSPs 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.

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.

The Issuer is a licensed FSP and is authorised to carry on business in respect of financial advisory services and financial intermediary services, and has appointed key individuals in terms of the FAIS Act.

Industry role players (including African Bank) 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 by, *inter alios*, 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, National Treasury published the FSR Bill which proposed to amend the wording of the definition of an intermediary service to clarify this issue and include within its ambit any act which results in a sale of a financial product, which will impact the Issuer’s branch personnel and their FAIS Act registration requirements. The FSB has advised that interim measures (for instance, FSB board notices or other bills) would be used to give effect to certain provisions of the FSR Bill prior to its implementation.

The FSB has also published the “*Amendments to the Fit and Proper Requirements and Accompanying Measures, 2013*” (under Board Notice 260 of 2013) which came into operation on 1 January 2014. As a result, staff engaging in simpler products will be able to write an easier regulatory examination and meet different requirements to be registered as representatives. This detail has however not been published as yet, and African Bank took a proactive stance on the matter, preparing and providing its staff with support to meet the current fit and proper requirements, which work will continue within the Issuer. The Issuer will continue to engage with the FSB on these issues, and will be applying for recognition of its products under the newly-created “Simple Product” category of financial products.

Pursuant to an engagement between African Bank and the FSB, African Bank had registered its branch and insurance sales call centre representatives for rendering intermediary services in various categories, relating to stand alone insurance and deposit products. These staff members have been enrolled on internal training programmes to provide them with the required regulatory examinations and to obtain an FSB approved qualification. As the employment of such staff members will be transferred to the Issuer as part of the Restructuring, the Issuer will benefit therefrom. It is the Issuer’s intention to register its representatives for the “Simple Product” category, which category will be extended to apply to the credit life product in the near future.

If the changes contemplated in the FSR Bill become effective, the effect will be that, should the Issuer provide financial advisory and intermediary services in respect of other insurance and deposit products, it will need to have its representative list amended by the FSB to reflect both advice and intermediary services in respect of such other products. In addition, branch personnel involved in the selling of such insurance and deposit products will most likely need to undergo further product training and complete the prescribed fit and proper requirements.

REGULATORY DEVELOPMENTS

Implementing a twin peaks model of financial regulation in South Africa

The Financial Regulatory Reform Steering Committee (“FRRSC”), comprising National Treasury, SARB and the 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 proposals were formally approved by cabinet in July 2011.

Twin Peaks is a comprehensive and complete system for regulating the financial sector, prioritising the customer and protecting their funds. It represents a decisive shift away from a fragmented regulatory approach. The Twin Peaks model of financial regulation is designed to underpin a comprehensive regulatory system, with two aims, namely to strengthen financial stability and to ensure the soundness of financial institutions.

The “Twin Peaks” approach entails creating a prudential regulator housed in SARB and transforming the FSB into a dedicated market conduct regulator for the financial sector.

The shift to a Twin Peaks approach to regulation of the financial system is part of a broader financial regulatory reform agenda, in terms of which 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.

National Treasury has indicated that the implementation of Twin Peaks reform model is a multi-year project expected to take place in two phases.

As part of the first phase the Financial Sector Regulation Bill, 2013 was published for comment during December 2013 with a second draft (being the FSR Bill) being published for comment on 11 December 2014. This draft bill is intended to be the first in a series of bills, to give effect to the implementation of the Twin Peaks model of financial regulation and, as indicated above, importantly creates the framework for the establishment of two regulatory authorities, namely:

- a new Prudential Authority within SARB which will be responsible for the oversight of the safety and soundness of banks, insurance companies and other financial institutions; and
- a new Financial Sector Conduct Authority which will be tasked with protecting financial customers and ensuring that they are treated fairly by financial institutions as well as improving the way financial service providers conduct their business. This Financial Sector Conduct Authority will also be responsible for ensuring the integrity and efficiency of financial markets, and promoting effective financial consumer education.

In addition, the FSR Bill gives SARB primary responsibility to oversee financial stability. To facilitate this, the FSR Bill creates a statutory inter-agency Financial Stability Oversight Committee (“FSOC”), chaired by the Governor of SARB, with financial stability powers.

The draft FSR Bill also creates the concepts of “mono-regulated” and “dual-regulated” institutions. Mono-regulated entities are those that undertake activities that only give rise to market conduct regulation (e.g. advisory and intermediary services). Dual-regulated entities are those that undertake activities that give rise to both prudential and market conduct regulation (e.g. banking and insurance).

In addition to creating the two regulators, the FSR Bill aims to achieve a financial system that works in the interests of financial customers, and supports balanced and sustainable economic growth in South Africa, by establishing, in conjunction with the other financial sector laws, a regulatory and supervisory framework that promotes: (a) financial stability; (b) the safety and soundness of financial institutions; (c) the fair treatment and

protection of financial customers; (d) the efficiency and integrity of the financial system; (e) the prevention of financial crime; (f) financial inclusion; and (g) confidence in the financial system.

The other objectives of the draft FSR Bill are as follows:

- *Enhancing coordination and cooperation between regulators:* To achieve this, the FSR Bill intends to provide a legal framework to enhance coordination and cooperation between regulators. In particular, a Memorandum of Understanding must be signed between the financial sector regulators and SARB to ensure alignment; the FSOC is tasked with ensuring a coordinated and immediate response to risks to the stability of the financial system; and a Council of Financial Regulators (“CFR”) will be established to coordinate all regulators, standard setters and other agencies with a mandate over financial institutions on issues like competition, legislation and enforcement, market conduct and financial stability. The CFR will therefore also include regulators that do not report to the Minister of Finance, for example, the National Credit Regulator, Council for Medical Schemes, Competition Commission and the National Consumer Commission.
- *Balancing operational independence and accountability of regulators:* The FSR Bill seeks to strengthen the operational independence of regulators within a policy framework approved by the Government, while at the same time strengthening their accountability.
- *Establishing a crisis management and resolution framework:* A resolution framework to provide authorities with the appropriate tools and powers to limit contagion in the financial systems associated with a financial crisis. The FSR Bill provides for resolution powers and identifies SARB as the resolution authority in South Africa. However, where taxpayers’ money is at risk, the FSR Bill provides for crisis management decisions to be taken by the Minister of Finance.
- *Creating a Financial Services Tribunal and strengthening enforcement:* The FSR Bill also establishes a shared enforcement mechanism – the Financial Services Tribunal – which is aimed at encouraging compliance with all aspects of the new regulatory regime. The FSR Bill enhances existing regulatory and enforcement action powers (such as suspension or withdrawal of licences and approvals, orders to take or cease particular actions, and debarments) of the regulators, and also provides for an appeal mechanism.
- *Strengthening ombuds schemes:* The FSR Bill, through consequential changes to the Financial Services Ombuds Schemes (“FSOS”) Act, seeks to strengthen the ombuds system by putting measures in place to enhance public awareness of the ombud system and requiring all financial institutions to be members of an ombud scheme. It also broadens the mandate and role of the FSOS Council to, amongst others, approve the appointment or removal of an ombud, set norms and standards for ombud schemes and promote and direct cooperation and coordination of the activities of ombud schemes to ensure easy access to schemes and consistency in complaint resolution mechanisms.

The second phase of the implementation of the Twin Peaks reform model, 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.

(See “Risk Factors – Risks relating to the Issuer - The Issuer operates in a highly regulated environment which is subject to change – Financial Sector Regulation Bill and Resolution Framework for Financial Institutions”).

Treating Customers Fairly policy (“TCF”)

As described above, the “Twin Peaks” approach entails creating a prudential regulator housed in SARB and transforming the FSB into a dedicated market conduct regulator to be known as the Financial Sector Conduct

Authority. 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 financial service providers possess certain information that the customers do not. 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 an activities-based, cross-cutting and outcomes-driven approach to regulation and supervision, designed to ensure that regulated financial institutions apply specific standards of fairness to all financial customers. 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 products, switch providers, 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 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 (see “*Principal Legislation – Financial Advisory and Intermediary Services Act, 2002*” above). 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. It is proposed that, ultimately, the various pieces of market conduct legislation applicable to the financial sector will be consolidated. 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 and this legislative amendment forms part of phase 2 of the Twin Peaks reform model described above. 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 FSB has indicated that there will not 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.

African Bank formally adopted the TCF objectives and committed to its implementation, which is to be undertaken in phases, and the preparations include business priorities that are transferable from the African Bank organisational structure into the Issuer’s structure and strategy.

TCF governance structures, including a TCF steering committee, have been established, with clear roles and responsibilities for TCF implementation. The TCF implementation framework for the first phase of TCF implementation consists of the following key categories:

- people culture, readiness and education;
- customer service improvements, awareness and education;
- customer education, providing customer the information, advice and knowledge to make informed decisions;
- TCF business process and product review, incorporating TCF principles across customer engagements and offerings; and
- review and enhancement of information management and reporting that will assist with monthly reporting and measurement of non-compliance as well as with the measurement of the TCF progress.

The TCF self-assessment questionnaire prepared by the FSB has been completed by many of the business units to be acquired by the Issuer, pursuant to the Restructuring to gauge African Bank’s TCF readiness levels. African Bank implemented 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. As the employment of such management and staff members will be transferred to the Issuer as part of the Restructuring, the Issuer will benefit therefrom. After this awareness campaign, the focus will move to an education programme within the Issuer. The Issuer will take cognisance of fairness outcomes when implementing remuneration, incentive and reward policies in the group.

Enhancements were made to improve African Bank’s service management resolution system, including query and complaint management and account processing, all of which will be transferred to the Issuer. The focus will be to enhance and implement this solution as part of the Issuer’s central complaint resolution system in the future.

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 Issuer 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.

South Africa: FSB – Retail Distribution Review Paper

A discussion paper outlining the results of the Retail Distribution Review (“**RDR**”) was released by the FSB in November 2014. The paper proposes a number of far-reaching reforms to the regulatory framework for distributing retail financial products to customers in South Africa.

The RDR was undertaken in response to concerns that despite comprehensive regulatory requirements dealing with financial advice and distribution, poor customer outcomes and mis-selling persist. The RDR outlines a more proactive and interventionist regulatory approach to addressing these risks. It proposes the introduction of a set of structural interventions designed to change incentives, relationships and business models in the market in a way that supports the consistent delivery of fair outcomes to customers.

Desired outcomes of the RDR are distribution models that, among others:

- support the delivery of suitable products and provide fair access to suitable advice for financial customers;
- enable customers to understand and compare the nature, value and cost of advice and other services intermediaries provide;
- enhance standards of professionalism in financial advice and intermediary services to build consumer confidence and trust;
- enable customers and distributors to benefit from fair competition for quality advice and intermediary services, at a price more closely aligned with the nature and quality of the service; and
- support sustainable business models for financial advice that enable adviser businesses to viably deliver fair customer outcomes over the long term.

A total of 55 proposals are put forward in the discussion paper, which are grouped around:

- the types of services provided by intermediaries to customers and product suppliers respectively, proposing an activity-based approach to categorising these services;
- rationalisation of the range of relationships between product suppliers and intermediaries. Proposals under this heading also address the responsibility of product suppliers for advice and intermediary/outsourced services provided; and
- the types of intermediary remuneration models that should apply to the revised sets of services and relationships proposed, including measures to deal with conflicts of interest in the provision of financial advice.

The proposals outlined in the RDR paper will entail structural changes to intermediary relationships and remuneration and will require extensive amendments to the regulatory framework.

These changes are expected to form part of a broader review of the legislative architecture necessary to give effect to the Twin Peaks regulatory model. The changes will be implemented in a phased manner. Based on current expectations of the legislative and regulatory timetable outlined above, it is not expected that the implementation date will be before late 2016.

RDR will require a review of the payment of commissions and fees for intermediary services, binder services and outsourced services between the Issuer and third party insurers (such as Guardrisk) in respect of credit life business offered through the Issuer's infrastructure to customers of the Issuer. When RDR is implemented, such

services will have to be defined in more detail and remuneration must clearly be linked to the range of services that the Issuer performs on behalf of either customers or third party insurers in the management of credit life business. There will also be more onerous obligations on the Issuer as a financial services provider (“FSP”) in performing, for example, “low advice” services to customers where the Issuer’s distribution models include limited advice, and at the same time more onerous obligations on third party insurers to ensure the Issuer as their agent is acting in the best interest of customers.

(See “Risk Factors – Risks relating to the Issuer - The Issuer operates in a highly regulated environment which is subject to change – Retail distribution review”.)

Changes in respect of Early Debit Orders

The National Payment System (the “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, 1998 (as amended) (the “NPS Act”), 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, 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, 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 EDOs, namely authenticated early debit orders (“AEDO”) (which are authenticated by the account-holder in person through an electronic signature) and non-authenticated early debit orders (“NAEDO”).

Both AEDO and NAEDO are currently processed on a randomised, non-preferential basis, providing every beneficiary (including the account-holder’s own bank account) 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.

In July 2013, at the instance of SARB, a project was initiated by the Payment Association of South Africa (“PASA”) to address authentication of payment instructions, with implementation of solutions targeted for 30 September 2016. In short, customers will be able to authenticate debit orders by additional methods such as

utilising cellular phones, ATMs, internet banking or card and personal identity number (PIN) prior to the debit order being activated by customers' banks. This will address a number of current problems with NAEDO payment instruction with the expected benefit of a significant reduction in the number of disputed debit order returns. Should the Issuer wish to have the capability of causing a request to be issued to customers to authenticate debit order instructions remotely, some changes to the systems the Issuer is to acquire from African Bank pursuant to the Restructuring will have to be made. The advantage of obtaining authentication is that it will limit the ability of customers to dispute debit orders. Failure to do so will mean that, after September 2016, the Issuer will not be able to take advantage of this benefit until it has made such system changes. Once this authentication capability is launched, no new NAEDO payment instructions will be accepted. NAEDO payment instructions in existence at such time will need to be converted to authenticated collections ("AC") over a period of 33 months (i.e. 1 October 2016 to 30 June 2019). Existing NAEDO contracts as at 30 September 2016 will be ring-fenced and converted to a database of Qualified Early Debit orders which will be processed along with new AC contracts until 30 June 2019 unless predefined disqualifying criteria are met (for instance, there being four consecutive failed payments, the payment being stopped or disputed by the customer).

The Issuer will initially rely largely on NAEDO for its debit order collection processes as most of its customers' instalments fall within the NAEDO limit. However, the Issuer intends actively to promote the new AC requirements at loan origination to reduce the number of NAEDO based contracts which will require conversion after NAEDO payment instructions have been phased out (as described above). The Issuer intends to make the necessary system changes to implement authenticated collections at the same time as the rest of the industry.

Protection of Personal Information Act, 2013

The Protection of Personal Information Act, 2013 (as amended) (the "**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 proclaimed. On 11 April 2014, the President of South Africa proclaimed that certain sections of the POPI Act would come into force with immediate effect (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 proclaimed by the President of South Africa. There will be a 12-month grace period (or such longer period as may be determined by the President) 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. This section has not yet come into force which means that the 12-month grace period has not yet commenced.

The POPI Act has been introduced to give effect to the constitutional right to privacy, in particular, the right to informational privacy. The POPI Act will, after its commencement, apply to the processing of personal information by a responsible party. "Processing" is defined very broadly in POPI and will include almost all activities that a bank carries out in relation to personal information. It is important to note that "personal information" in the POPI Act extends to personal information of both natural and juristic persons. Therefore, "data subjects" can be both natural and juristic persons.

The responsible party will (among other obligations) have to comply with the eight conditions for lawful processing in the POPI Act which include:

- *accountability*: the responsible party must take measures to ensure the conditions for lawful processing of personal information are complied with;
- *processing limitation*: the responsible party must, subject to certain exceptions, collect personal information directly from the data subject and ensure that it processes the personal information lawfully and in a reasonable manner which does not infringe the privacy of the data subject and in a

manner that is adequate, relevant and not excessive given the purpose. The responsible party will need to ensure that processing falls within one or more of the categories of permitted processing, one of which may include the consent of the data subject (which consent may be withdrawn at any time), in order to process the personal information for the purposes it determines;

- *purpose specification*: the responsible party must ensure that the data subject is aware of the purpose for which information is collected and the intended recipient of the information, unless the data subject has authorised otherwise. Records of personal information must also not be retained longer than is necessary to achieve the purpose for which the information was collected and processed, subject to certain exceptions;
- *further processing limitation*: further processing of personal information must be compatible with the purpose for which it was originally collected;
- *information quality*: the responsible party must take reasonably practicable steps to ensure that the personal information is complete, accurate, not misleading and updated when necessary;
- *openness*: the responsible party must notify the data subject of various matters;
- *security safeguards*: the responsible party must adopt appropriate reasonable technical and organisational security measures to ensure the confidentiality, integrity and availability of the information collected. The responsible party must also notify the data subject and the regulator if it has reasonable grounds to believe that information may have been lost, accidentally leaked or disclosed to unauthorised third parties. Moreover there are various obligations relating to operators; and
- *data subject participation*: the data subject may request access to its personal information held by the responsible party and may request the responsible party to correct, destroy or delete certain of its personal information.

The descriptions of the eight conditions above are intended to be illustrative and not exhaustive of the requirements and obligations in the eight conditions. There are also various exceptions and requirements in relation to the eight conditions.

There are more extensive restrictions on the processing of personal information of minors and “special personal information”. Apart from certain very limited exceptions, information of minors and “special personal information” can only be processed with the relevant consent of the data subject (or the guardian, in the case of a minor).

A responsible party will need to obtain the prior authorisation from the Information Regulator if it intends to perform various acts, including (among others) where it intends to: (i) process any unique identifiers of the data subject (a) for a purpose other than the one for which the identifier was specifically intended at collection, and (b) with the aim of linking the information processed by other responsible parties; or (ii) process information on credit reporting.

Moreover, there are various obligations relating to the use of automated decision making. A data subject may not be subject to a decision which results in legal consequences or affects it, him or her to a substantial degree which is based solely on automated processing of information intended to provide a profile of such person including his or her performance at work, credit worthiness, reliability, location, health, personal preferences or conduct, unless the decision meets certain requirements.

The POPI Act also contains provisions regulating the transfer of personal information outside of South Africa and regulating processing of personal information for the purposes of certain forms of direct marketing.

There are various risks and consequences for non-compliance with the POPI Act, particularly when such non-compliance constitutes an offence under such Act. On conviction, a person (which includes a natural or juristic person and may thus arguably include a director/officer of the Issuer) may be liable to pay a fine or imprisonment. In addition, the Information Regulator may impose an administrative fine of up to R10 million in respect of offences under the POPI Act. A data subject (or the Information Regulator on behalf of the data subject) may also institute civil action against the Issuer (for non-compliance with the POPI Act) for damages, regardless of whether intent or negligence can be proven on the part of the responsible party. There are also the risks of reputational harm arising from non-compliance.

The POPI Act will therefore have a significant impact on how African Bank presently processes customer, supplier and employee personal information and accordingly will impact the Issuer. Pursuant to the requirements of the POPI Act, the chief executive officer will be regarded as the "Information Officer" and required to ensure compliance with POPI. While all personnel will need to understand their roles and responsibilities, it will be important for the board of directors, executives and management to play an active role to the extent necessary to ensure the organisation's compliance with the requirements of the POPI Act. The Issuer will be required to assess all its systems, processes, policies and practices given the proposed requirements in the POPI Act and implement changes in its management processes as necessary.

Microinsurance

Microinsurance refers to insurance that is accessed by the low-income population (also known as the mass market), provided by a variety of different providers. Microinsurance aims to support financial inclusion in South Africa by means of providing a regulatory framework within which affordable insurance products can be sold to low income households in South Africa. The framework is intended to protect policyholders without placing an onerous regulatory or financial burden on companies providing such insurance products.

While policy documents have been issued with regard to a microinsurance framework, no standalone microinsurance legislation has yet been drafted and it appears that the current approach is to incorporate the microinsurance provisions under the new financial sector regulatory structure to be implemented in South Africa under the "Twin Peaks" framework.

OTHER PRINCIPAL LEGISLATION

Anti-money laundering legislation

Money laundering is addressed in the Prevention of Organised Crime Act, 1998 (as amended) ("POCA") and FICA. POCA is an omnibus piece of legislation 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 FIC. 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 FIC by helping to ensure compliance with FIC guidance notes, circulars and other announcements.

In August 2014, SARB conducted an AML/FICA inspection of African Bank. A number of findings were formally communicated to African Bank and have highlighted certain deficiencies in African Bank's client screening systems. African Bank has proactively, with the support of specialists, undertaken a gap analysis based on the formal findings communicated. A rectification plan of action is also being prepared, with the AML control function to receive additional resources and systems in order to ensure that the AML compliance obligations are addressed. African Bank is required, and the Issuer, following the Restructuring, will be required, to provide SARB with monthly progress reports measured against a detailed remedial plan with all deficiencies with regard to sanctions screening (which, as of 30 November 2015, have been resolved) and all other deficiencies to be resolved by no later than 30 June 2016.

Companies Act, 2008 (the "Companies Act")

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. African Bank and the Issuer are subject to the applicable provisions of the Companies Act. Banks are categorised as "public companies", a category of "profit company", under the Companies Act.

The Companies Act extends shareholders' rights against companies and directors. Directors, prescribed officers and committee members 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 to the Companies Act. 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, 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, as was implemented in the case of African Bank on 10 August 2014.

EXCHANGE CONTROLS

The information below is not intended as legal advice and it does not purport to describe all the considerations that may be relevant to a prospective investor in the Notes. Prospective investors in the Notes who are non-South African residents or emigrants from the Common Monetary Area (as defined below) are urged to seek further professional advice with regard to the purchase of Notes.

Exchange controls restrict the export of capital from South Africa, the Republic of Namibia and the Kingdoms of Swaziland and Lesotho (collectively the “**Common Monetary Area**”). These exchange controls are administered by FinSurv and regulate transactions involving South African residents (as contemplated in the Exchange Control Regulations, including South African companies (“**Residents**”)).

The purpose of exchange controls is to mitigate the decline of foreign capital reserves in South Africa. The Issuer expects that South African exchange controls will continue to operate for the foreseeable future. The Government has, however, committed itself to relaxing exchange controls gradually and significant relaxation has occurred in recent years. It is the stated objective of the South African authorities to achieve equality of treatment between South African residents and non-South African residents in relation to inflows and outflows of capital. This gradual approach towards the abolition of exchange controls adopted by the Government is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time.

On 13 October 2015, the Issuer was granted approval from FinSurv to establish the Programme and to borrow a maximum of U.S.\$6 billion under the Programme in the foreign debt capital markets without prior reference to FinSurv. The approval is conditional upon, among other things, the Notes issued having a maturity period ranging from 9 to 72 months and, in respect of new issuances under the Programme, is scheduled to expire on 31 January 2017. No further Notes under this Programme may be issued after 31 January 2017 without further prior approval of FinSurv. In regard to future applications, FinSurv may seek to impose different or further conditions on the issue of each Tranche of Notes under the Programme, but this is not currently anticipated.

The Finsurv approval of 13 October 2015, as read with a supplementary approval of 19 January 2016, included the specific approval of the issuances of the Senior Notes contemplated in the section headed “*Capitalisation and Indebtedness - Description of certain indebtedness - Proposed Issuances under the Programme and the DMTN Programme - EMTNs to be issued under the Programme*”. Non-South African residents and/or their offshore Subsidiaries may, without the prior written approval of FinSurv, subscribe for or purchase any Note or beneficially hold or own any Note.

South African Residents (and if companies, their offshore Subsidiaries) may not subscribe for or purchase Notes without the prior approval of FinSurv, with the exception of:

- South African institutional investors; and
- South African authorised dealers in foreign exchange,

who may subscribe for or purchase Notes by utilising their pre-approved prudential offshore allowances or applicable prudential limits, as the case may be. Such institutional investors and authorised dealers are urged to seek further professional advice with regard to any such subscription or purchase.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, which will be incorporated by reference into each Global Note or Global Certificate, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these terms and conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these terms and conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme. In the case of PD Exempt Instruments issued under the Programme, references to the Final Terms in these Conditions shall be construed as references to the Pricing Supplement.

The Notes are issued pursuant to an agency agreement dated 29 March 2016 (the “**Agency Agreement**”) between K2014176899 (SOUTH AFRICA) LIMITED (to be renamed African Bank Limited on the Transaction Effective Date) (a public company with limited liability duly incorporated in accordance with the company laws of South Africa and registered as a bank in terms of the Banks Act) (the “**Issuer**”), Citibank N.A., London Branch as fiscal agent and transfer agent, and Citigroup Global Markets Deutschland AG as registrar and with the benefit of a Deed of Covenant dated 29 March 2016 (the “**Deed of Covenant**”) executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Fiscal Agent**”, the “**Paying Agents**” (which expression shall include the Fiscal Agent), the “**Registrar**”, the “**Transfer Agents**” and the “**Calculation Agent(s)**”, and which expressions include any successor fiscal agent, registrar, paying agent, transfer agent and calculation agent or additional agent appointed from time to time in connection with the Notes. References herein to the “**Agents**” are to the Registrar, the Fiscal Agent, the Paying Agents, the Calculation Agent(s) and the Transfer Agents and any references to an “**Agent**” is to any one of them.

The Noteholders (as defined in Condition 18 (*Definitions*) below) and the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are bound by, and deemed to have notice of, all of the provisions of the Agency Agreement and the Deed of Covenant applicable to them.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or, as the case may be, the person in whose name a Registered Note is registered in the Register, as defined below (or, in the case of a joint holding, the first named thereof).

Capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes. Defined terms used herein have the meanings set out in Condition 18 (*Definitions*) hereof.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents, the initial specified offices of which are set out in the Agency Agreement.

1 Form, Denomination and Title

The Notes may be issued in bearer form (the “**Bearer Notes**”) or in registered form (the “**Registered Notes**”) as specified in the relevant Final Terms in each case in the Specified Denomination(s) as indicated in the relevant Final Terms and may be held in holdings equal to any specified minimum amount and integral multiples equal to any specified increment (each, an “**Authorised Holding**”).

A Note may be a Senior Note or a Tier 2 Note, as indicated in the relevant Final Terms. A Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, depending upon the Interest Basis indicated in the relevant Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (referred to in these terms and conditions as “**Certificates**”) and, save as provided in Condition 2 (*Transfer of Registered Notes*), each Certificate shall represent the entire holding of Registered Notes by the same holder. Each Certificate will be numbered serially with an identifying number which will be recorded in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”).

Title to the Bearer Notes, the Coupons and the Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the Register maintained by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate), and no Person shall be liable for so treating the holder.

2 Transfer of Registered Notes

(a) Transfer of Registered Notes

Subject to Conditions 2(e) (*Regulations Concerning Transfers and Registration*) and 2(f) (*Closed Periods*), Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the nominal amount of Registered Notes transferred and (where not all of the Registered Notes held by a holder are being transferred) the nominal amount of the balance of Registered Notes not transferred are Authorised Holdings (if applicable). In the case of a transfer of only part of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a Person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(b) Exercise of Options or Partial Redemption in respect of Registered Notes

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a redemption of, only some of a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) Delivery of New Certificates

Each new Certificate to be issued pursuant to Conditions 2(a) (*Transfer of Registered Notes*) or 2(b) (*Exercise of Options or Partial Redemption in respect of Registered Notes*) shall be available for delivery within five business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(f)(ii) (*Redemption at the Option of holders of Senior Notes - Exercise Notice*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or Registrar (as the case may be) the costs of such other method of delivery (at the risk of such holder) and/or such insurance as it may specify. In this Condition 2(c) (*Delivery of New Certificates*), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business (including dealings in foreign currencies) in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) Exchange and Transfer Free of Charge

The exchange and transfer of Registered Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment by the relevant Noteholder of any tax or other governmental charges that may be imposed in relation to it (or the giving by the relevant Noteholder of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register will, subject to Applicable Law, be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Issuer*), (iii) after any such Note has been called for redemption

by the Issuer pursuant to Condition 6(e) (*Redemption at the Option of the Issuer*) or (iv) during the period of seven days ending on (and including) any Record Date.

3 Status

(a) Status of the Senior Notes

The Senior Notes and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Senior Notes and the Coupons relating to them shall, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 4 (*Negative Pledge*), at all times rank at least *pari passu* with all other unsecured and unsubordinated indebtedness and other monetary obligations of the Issuer, present and future.

(b) Status of the Tier 2 Notes

- (i) The Tier 2 Notes constitute direct, unsecured and, in accordance with Condition 3(b)(ii) below, subordinated obligations of the Issuer and rank (i) *pari passu* without any preference among themselves, (ii) save for those that have been accorded preferential rights by law, at least *pari passu* with all other subordinated obligations of the Issuer (other than any subordinated obligations which rank or are expressed to rank senior to the Issuer's obligations under the Tier 2 Notes) including but not limited to subordinated obligations in the form of other Tier 2 Notes and Tier 2 Capital, whether issued before the date of issue of the Tier 2 Notes or thereafter, (iii) ahead of and in priority to all Junior Obligations and (iv) behind in priority to all claims of Depositors and Senior Creditors.
- (ii) The claims of Tier 2 Noteholders entitled to be paid amounts due in respect of the Tier 2 Notes (including any damages or other amounts (if payable)) are subordinated to the claims of Depositors and Senior Creditors and, accordingly, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or is wound up or placed under curatorship (in each case other than pursuant to a Solvent Reconstruction):
 - (A) notwithstanding that a Tier 2 Noteholder shall have tendered proof of a claim for any amount in respect of the Tier 2 Notes in the event of the dissolution, liquidation, winding-up or curatorship of the Issuer, such proof of claim shall be subject to the condition that no such amount shall be paid to that Tier 2 Noteholder until the claims of the Depositors and all Senior Creditors have been paid or discharged in full and (i) to the extent that such condition cannot be fulfilled, such claim (or the relevant part thereof in respect of which the condition could not be fulfilled) shall be extinguished (the "**Extinguished Claim**"); (ii) if any payment of such Extinguished Claim is made to the Tier 2 Noteholder, such Tier 2 Noteholder will immediately transfer such amount so paid in respect of such Extinguished Claim to the liquidator, curator or other relevant insolvency official of the Issuer, to be held in trust by the liquidator, curator or other relevant insolvency official of the Issuer for the benefit of its Depositors and Senior Creditors until the claims of Depositors and Senior Creditors which are admissible in any such dissolution, liquidation, winding-up or curatorship have been paid or discharged in full, and this undertaking will constitute a *stipulatio alterii* in favour of the Depositors and Senior Creditors; and (iii) no Tier 2 Noteholder shall have the right to participate in any vote in respect of any creditors meeting or resolution in any

liquidation or winding-up of the Issuer in respect of any Extinguished Claim and no claim so proved for any amount in respect of the Tier 2 Notes shall in any way whatsoever entitle the Tier 2 Noteholder to any voting rights in respect of any creditors meeting or resolution in any dissolution, liquidation, winding-up or curatorship of the Issuer until it is determined in any dissolution, liquidation, winding-up or curatorship that such claim is not an Extinguished Claim;

- (B) no amount due under the Tier 2 Notes shall be eligible for set-off, counterclaim, abatement or other similar remedy which a Tier 2 Noteholder might otherwise have under the laws of any jurisdiction in respect of the Tier 2 Notes nor shall any amount due under the Tier 2 Notes be payable to any Tier 2 Noteholder until the claims of Depositors and Senior Creditors which are admissible in any such dissolution, liquidation, winding up or curatorship have been paid or discharged in full; and
- (C) subject to Applicable Law, a Tier 2 Noteholder may not exercise or claim any right of set-off in respect of any amount arising out of or in connection with the Tier 2 Notes owed to it by the Issuer and each Tier 2 Noteholder shall, by virtue of its subscription, purchase or holding of any Tier 2 Notes, (i) be deemed to have waived all such rights of set-off and (ii) to the extent that any set-off takes place, whether by operation of law or otherwise, between: (A) any amount arising out of or in connection with the Tier 2 Notes owed by the Issuer to a Tier 2 Noteholder; and (B) any amount owed to the Issuer by such Tier 2 Noteholder, such Tier 2 Noteholder will immediately transfer such amount which is set-off to the Issuer or, in the event of its dissolution, winding-up, liquidation or curatorship (as the case may be), to the liquidator, curator or other relevant insolvency official of the Issuer, to be held in trust by the liquidator, other relevant insolvency official or curator of the Issuer, for the benefit the Depositors and Senior Creditors until the claims of Depositors and Senior Creditors which are admissible in any such dissolution, liquidation, winding-up or curatorship have been paid or discharged in full, and this undertaking will constitute a *stipulatio alterii* in favour of the Depositors and Senior Creditors.

(c) Capital Regulations and Additional Conditions

In order for an issuance of the Tier 2 Notes to qualify as Tier 2 Capital, Tier 2 Notes must comply with the applicable Capital Regulations (including the Additional Conditions (if any) prescribed by the Relevant Regulator in respect of a particular Tranche of Tier 2 Notes). The Issuer will specify in the applicable Final Terms whether any issue of Notes is an issue of Tier 2 Notes intended to qualify as Tier 2 Capital. The Additional Conditions (if any) prescribed by the Relevant Regulator in respect of Tier 2 Notes will be specified in the relevant Final Terms.

(d) Statutory Loss Absorption of Tier 2 Notes

To the extent that any regulations and/or legislation come(s) into effect in South Africa after the Issue Date of the first Tranche of any Series of Tier 2 Notes for the purpose described in paragraph 1(a) of the Annex (entitled “*Minimum requirements to ensure loss absorbency at the point of non-viability*”) to the Press Release dated 13 January 2011 by the Basel Committee on Banking Supervision, and such regulations and/or legislation are applicable to such Series of Tier 2 Notes, such Series of Tier 2 Notes will be subject to such regulations and/or legislation, and these Conditions shall be construed accordingly.

4 Negative Pledge

This Condition 4 applies only to Senior Notes and is only for the benefit of holders of Senior Notes. So long as any Senior Notes remain outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries shall, create, permit to subsist or have outstanding, any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any Guarantee in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Senior Notes or Coupons the same security, equally and rateably, as is created or subsisting to secure any such Relevant Indebtedness or Guarantee in respect of Relevant Indebtedness, as the case may be, or such other security as shall be approved by Extraordinary Resolution of the holders of the Senior Notes, unless the provision of any such security is waived by an Extraordinary Resolution of the holders of the Senior Notes. 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 holders of the Senior Notes.

5 Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).

In the case of CNH Notes, if:

- (i) Interest Payment Date Adjustment is specified as applying in the applicable Final Terms; and
- (ii) (x) there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) any Interest Payment Date would otherwise fall on a day which is not a Business Day,

then such Interest Payment 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 shall be brought forward to the immediately preceding Business Day.

(b) Interest on Floating Rate Notes

- (i) *Interest Payment Dates*: Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).
- (ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, such date shall be adjusted in accordance with the relevant Business Day Convention.
- (iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as the sum of the Margin and the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as a Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the relevant Final Terms;
- (y) the Designated Maturity is a period specified in the relevant Final Terms; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

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

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
 - (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Relevant Time on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of 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 the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the Relevant Time, subject as provided below, the Calculation Agent shall request the office of each Reference Bank, located in the Relevant Financial Centre to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant 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 of such offered quotations as determined by the Calculation Agent.

- (z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) 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 were offered at approximately the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the interbank market of the Relevant Financial Centre, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Relevant Financial Centre, in each case provided that, 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 or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified in the relevant Final Terms as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the relevant Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the relevant Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate and (b) in relation to ISDA Determination, the Designated Maturity.

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

(c) Zero Coupon Notes

If the Redemption Amount of a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, or improperly withheld or refused, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield.

(d) Accrual of Interest

Interest (if any) shall cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) from the due date for redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which event it shall continue to accrue interest or, in the case of Zero Coupon Notes, shall accrue interest (in each case, both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 (*Interest and Other Calculations*) to the Relevant Date.

(e) Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and rounding

- (i) If any Margin is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the relevant Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.

(f) Calculations

The amount of interest payable in respect of each Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the relevant Final Terms, and the Day Count Fraction for such Interest Accrual Period, and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose, a “**sub-unit**” means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent., provided that where an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of

interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any other determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Rate of Interest, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other competent authority so require, such exchange or other competent authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(g) (*Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts*) but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the

interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed in accordance with the Agency Agreement as aforesaid.

6 Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled as specified below, each Note will be finally redeemed on the Maturity Date specified in the relevant Final Terms at its Final Redemption Amount.

(b) Early Redemption

(i) Zero Coupon Notes:

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the relevant Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the amortised face amount (the “**Amortised Face Amount**”) of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield set out in the relevant Final Terms (which, if none is shown in the relevant Final Terms, shall be such rate as would produce an amortised face amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or Condition 6(d) (*Redemption of Tier 2 Notes for Regulatory Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d) (*Accrual of Interest*).
- (D) Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.

- (ii) Other Notes: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or Condition 6(d) (*Redemption of Tier 2 Notes for Regulatory Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

(c) Redemption for Taxation Reasons

Subject, in the case of Tier 2 Notes, to Condition 6(i) (*Conditions to Redemption, Purchase or Modification of Tier 2 Notes*), the Notes may be redeemed at the option of the Issuer in whole, or in part, on any Interest Payment Date (if such Note is a Floating Rate Note) or at any time (if such Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b)(ii) (*Other Notes*)) (together with interest accrued to the date fixed for redemption), if a Tax Event occurs and is continuing, provided, however, that:

- (i) where the Notes may be redeemed at any time, 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 were a payment in respect of the Notes then due or would not be entitled (or such entitlement is materially reduced) to claim a deduction in computing its taxation liabilities; or
- (ii) where the Notes may be redeemed only on an Interest Payment Date, no such notice of redemption shall be given earlier than 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or would not be entitled (or such entitlement is materially reduced) to claim a deduction in computing its taxation liabilities.

In the case of partial redemption of Notes, the provisions of Condition 6(e) (*Redemption at the Option of the Issuer*) relating to the procedure for partial redemption shall apply to such a partial redemption for taxation reasons under this Condition 6(c) (*Redemption for Taxation Reasons*).

Before the publication of any notice of redemption pursuant to this Condition 6(c) (*Redemption for Taxation Reasons*), the Issuer shall deliver to the Fiscal Agent 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 an opinion of independent legal or tax advisers (as appropriate) of recognised standing to the effect that a Tax Event has occurred. Upon the expiry of any such notice as is referred to in this Condition 6(c) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(c) (*Redemption for Taxation Reasons*).

(d) Redemption of Tier 2 Notes for Regulatory Reasons

Subject, in the case of Tier 2 Notes, to Condition 6(i) (*Conditions to Redemption, Purchase or Modification of Tier 2 Notes*) and if so specified in the relevant Final Terms, Tier 2 Notes may be redeemed at the option of the Issuer in whole or in part, on any Interest Payment Date (if such Note is a Floating Rate Note) or at any time (if such Note is not a Floating Rate Note), on giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b)(ii) (*Other Notes*)) (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 6(e) (*Redemption at the Option of the Issuer*) relating to the procedure for partial redemption shall apply to such a partial redemption for regulatory reasons under this Condition 6(d) (*Redemption of Tier 2 Notes for Regulatory Reasons*).

Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal 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 Relevant Regulator has confirmed in writing to the Issuer that a Regulatory Event applies to the relevant Notes, an opinion of independent advisers of recognised standing appointed by the Issuer to the effect that a Regulatory Event applies. Upon the expiry of any such notice as is referred to in this Condition 6(d) (*Redemption of Tier 2 Notes for Regulatory Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(d) (*Redemption of Tier 2 Notes for Regulatory Reasons*).

(e) Redemption at the Option of the Issuer

Subject, in the case of Tier 2 Notes, to Condition 6(i) (*Conditions to Redemption, Purchase or Modification of Tier 2 Notes*) and if a Call Option is specified in the relevant Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders in accordance with Condition 14 (*Notices*) (or such other notice period as may be specified in the relevant Final Terms) redeem all or, if so provided, part of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued (if any) to such date.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(e) (*Redemption at the Option of the Issuer*).

In the case of a partial redemption the notice to Noteholders shall also specify the nominal amount of Notes drawn and the holder(s) of such Notes to be redeemed, which shall have been drawn in such place and in such manner as the Issuer deems appropriate, subject to compliance with any Applicable Laws and stock exchange or other relevant authority requirements.

(f) Redemption at the Option of holders of Senior Notes

- (i) *Put Option*: If a Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of the holder of any Senior Note, upon the holder of such Senior Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms), redeem such Senior Note on the Optional Redemption Date(s) specified in the relevant Exercise Notice at its Optional Redemption Amount together (if applicable) with interest accrued (if any) to the date fixed for redemption.
- (ii) *Exercise Notice*: In order to exercise the Put Option contained in Condition 6(f)(i) (*Put Option*), the holder of the Senior Note must, not less than 15 nor more than 30 days before the relevant Optional Redemption Date deposit (in the case of a Bearer Note) such Senior Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of a Registered Note) the Certificate representing such Senior Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the relevant period. No Note, Coupon or Certificate so deposited and option so exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. The Issuer shall have no obligation to remedy any defects in any Exercise Notice or bring any such defects to the attention of any Noteholder and shall not be liable whatsoever for any claims or losses arising in connection with a defective or invalid Exercise Notice.

(g) Purchases

Subject to Condition 6(i) (*Conditions to Redemption, Purchase or Modification of Tier 2 Notes*) and the Capital Regulations, the Issuer and any of its Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) at any price in the open market or otherwise (provided that a Subsidiary of the Issuer may not purchase Tier 2 Notes). Notes so purchased, while held by or on behalf of the Issuer or any Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating the quorum at any meeting of Noteholders or for the purposes of Conditions 10 (*Events of Default*) and 11(a) (*Meetings of Noteholders*).

(h) Cancellation

All Notes purchased by or on behalf of the Issuer or any Subsidiary may be surrendered for cancellation, in the case of a Bearer Note by surrendering such Note together with all unmatured Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of a Registered Note, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(i) Conditions to Redemption, Purchase or Modification of Tier 2 Notes

Notwithstanding the foregoing provisions of this Condition 6 and subject as provided below, for so long as the applicable Capital Regulations so require, Tier 2 Notes may be redeemed, purchased, cancelled (in whole or in part) or modified prior to the Maturity Date, only at the option of the Issuer, and only if:

- (i) the Issuer has notified the Relevant Regulator of, and the Relevant Regulator has consented in writing to, such redemption, purchase, cancellation or modification (as applicable), subject to such conditions (if any) as the Relevant Regulator may deem appropriate (in any case, only if and to the extent such a notification or consent is required in terms of the Capital Regulations (including any prescribed notice periods with which the Issuer may need to comply, if any, in such Capital Regulations)); and
- (ii) the redemption, purchase, cancellation or modification of the Tier 2 Notes is not prohibited by the Capital Regulations; and
- (iii) prior to any redemption, purchase or cancellation pursuant to this Condition 6, the Issuer shall deliver to the Paying Agent and the Transfer Agent a certificate signed by two directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem, purchase or cancel is satisfied.

7 Payments

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the Notes (in the case of payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in the Specified Currency with a bank in the

principal financial centre for such currency (which, in the case of euro, shall be a city in which banks have access to the TARGET System). Notwithstanding the above, in case of any payment in Renminbi, payment shall be made by transfer to a Renminbi account maintained by or on behalf of a holder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Business Day before the due date for payment.

(b) Registered Notes

- (i) *Principal*: Payments of principal in respect of Registered Notes shall be made against presentation and surrender or, in the case of part payment of any sum due, endorsement, of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar, to the Person and in the manner provided in Condition 7(b)(ii) (*Registered Notes – Interest*) below.
- (ii) *Interest*: Interest on Registered Notes shall be paid to the Person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the Specified Currency by way of electronic funds transfer to the holder (or to the first named of joint holders) of such Note or, if such option is not available, by cheque drawn on a Bank and mailed (at the holder’s risk) to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the Specified Currency maintained by the payee with a bank. Notwithstanding the above, in case of any payment in Renminbi, payment shall be made by transfer to a Renminbi account maintained by or on behalf of a holder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Business Day before the due date for payment.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments subject to fiscal laws

Payments will be subject in all cases to any fiscal or other laws, directives and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The Agents initially appointed by the Issuer and their respective specified offices are listed below. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of any of the Agents and to appoint additional or other Paying Agents or

Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require and (v) such other agents as may be required by any stock exchange on which the Notes may be listed. In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. Dollars in the circumstances described in Condition 7(c) (*Payments in the United States*) above. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

(f) Unmatured Coupons and unexchanged Talons:

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes such Bearer Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9 (*Prescription*)).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9 (*Prescription*)).

(h) Non-Business Days

If any date for payment in respect of any Note or Coupon is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

(i) Payment of U.S. Dollar Equivalent for CNH Notes

Notwithstanding any other provisions in these Conditions, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy any payment due under any CNH Notes or the Coupons relating to such CNH Notes, the Issuer shall, on giving not less than five and not more than 30 calendar days' irrevocable notice to the Noteholders prior to the due date for the relevant payment in accordance with Condition 14 (*Notices*), settle such payment in U.S. Dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi denominated amount.

Any payment made in the U.S. Dollar Equivalent of a Renminbi amount under this Condition 7(i) (*Payment of U.S. Dollar Equivalent for CNH Notes*) will constitute valid payment, and will not constitute a default in respect of the CNH Notes.

(j) General

Where any amounts are due and payable under the Senior Notes, such amounts shall be settled in full before any amounts are paid under the Tier 2 Notes.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and Coupons shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within South Africa or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by Applicable Law. In that event, the Issuer shall, subject to the Issuer's right to redeem such Notes in terms of Condition 6(c) (*Redemption for Taxation Reasons*), pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of the holder's having some connection with South Africa other than the mere holding of the Note or Coupon or the receipt of principal or interest in respect thereof; or
- (b) to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such withholding or deduction by complying with any statutory requirements or requirements of an administrative nature imposed by the South African revenue authorities in force from time to time, including, without limitation, by making a declaration of non-residence or other similar claim or filing for exemption to which it is entitled to the relevant tax authority or the Paying Agent (the effect of which is not to require the disclosure of the identity of the relevant holder); or
- (c) to, or to a third party on behalf of, a holder who could lawfully reduce (but has not so reduced) such withholding or deduction by complying with any statutory requirements or requirements of an administrative nature imposed by the South African revenue authorities in force from time to time including, without limitation, by making a declaration of non-residence or other similar claim or filing for the reduction to which it is entitled to the relevant tax authority or the Paying Agent (the effect of

which is not to require the disclosure of the identity of the relevant holder) provided that this exception shall only apply to that portion of the withholding or deduction which could lawfully have been so reduced; or

- (d) held by or on behalf of a Noteholder to the extent that such party could lawfully reduce the amount of taxation otherwise levied or leviable upon the principal or interest by virtue of the application of any tax treaty or non-South African tax laws applicable to such Noteholder, whether by way of a tax credit, rebate deduction or reduction equal to all or part of the amount withheld or otherwise, and whether or not it is actually claimed and/or granted and/or allowed and in these circumstances the additional amount shall only be payable to the extent that such amount could not be so reduced; or
- (e) 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 income or taxable income (as defined in section 1 of the Income Tax Act) or capital gain (as contemplated in paragraph 3 of Schedule 8 to the Income Tax Act) or taxable capital gain (as defined in paragraph 1 of Schedule 8 to the Income Tax Act) of any holder; or
- (f) presented or (if applicable) surrendered (or (if applicable) in respect of which the relevant Certificate is presented or (if applicable) surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting or, as the case may be, surrendering it for payment on such thirtieth day; or
- (g) if such withholding or deduction arises through the exercise by revenue authorities of special powers in respect of tax defaulters; or
- (h) if such withholding is required by the Issuer, any Paying Agent or any institution where the Notes are deposited as a direct or indirect consequence of the Agreement on the Taxation of Savings Income between the European Union and Switzerland; or
- (i) where any combination of the scenarios or occurrences contemplated in (a) to (h) above occurs.

If the Issuer becomes subject generally at any time to any taxing jurisdiction, authority or agency other than or in addition to South Africa, references in this Condition 8 (*Taxation*) and in the definition of Tax Law Change in Condition 18 (*Definitions*) to South Africa shall be read and construed as references to South Africa and/or to such other jurisdiction, authority or agency.

References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) “**interest**” shall (except as provided in Condition 7(a) (*Bearer Notes*)) be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and Other Calculations*) or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8 (*Taxation*).

Notwithstanding any other provision in these Conditions, the Issuer and the Paying Agents shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement entered into with the United States to facilitate the implementation of these provisions, implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the U.S. Internal Revenue Service (such withholding or deduction, “**FATCA Withholding**”). None of the Issuer, the Paying Agents, nor any other Person will be required to pay additional amounts or otherwise

indemnify a holder for any FATCA Withholding deducted or withheld by the Issuer, a Paying Agent or any other party as a result of any Person not being entitled to receive payments free of FATCA Withholding.

9 Prescription

Claims against the Issuer for payment in respect of the Notes and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

(a) Senior Notes

If any of the following events occur and are continuing, the holder of any Senior Note may by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, declare that such Senior Note is immediately due and repayable, whereupon the Early Redemption Amount of such Senior Note together with accrued interest to the date of redemption shall become immediately due and payable, unless such Event of Default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

- (i) **Non-Payment:** default is made for more than five business days in the payment on the due date of principal or interest in respect of any of the Senior Notes; or
- (ii) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other material obligations under or in respect of the Senior Notes and such default is incapable of remedy or is not remedied within 15 calendar days after written notice of such default addressed to the Issuer shall have been delivered to the Issuer or the Fiscal Agent at its specified office by any Noteholder; or
- (iii) **Cross-Acceleration:** the Issuer or any Material Subsidiary defaults in the payment of the principal or interest in respect of Material Indebtedness of, or assumed by, the Issuer or any Material Subsidiary (i) when and as the same shall become due and payable (or, as the case may be, within any applicable grace period) 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 payment obligations of, or assumed 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
- (iv) **Authorisations and Consents:** (without prejudice to (i) above) 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 Senior Notes 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 payment or other obligations under the terms of the Notes and the Issuer fails to remedy such circumstances within 21 Business Days of receiving written notice from the Senior Noteholder demanding such remedy; or
- (v) **Insolvency and Winding-Up:** the Issuer or any Material Subsidiary is placed in liquidation, dissolved or is wound-up, whether provisionally or finally or is placed under curatorship, in business rescue 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, reorganisation or other similar arrangement on terms approved by Extraordinary Resolution of the Senior Noteholders; or

- (vi) **Security Enforced:** any mortgage, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary in respect of Material Indebtedness of the Issuer or any Material Subsidiary becomes enforceable and the holder thereof has taken any steps to enforce it, unless such enforcement is discharged within 45 days; or
- (vii) **Cessation of Business or Stopping Payment of Debts:** 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, reorganisation or other similar arrangement on terms approved by Extraordinary Resolution of the Senior Noteholders, or the Issuer or any Material Subsidiary stops or threatens to stop payment of, or is factually unable to, or admits to being unable to pay its debts (or any class of its debts) as they fall due; or
- (viii) **Expropriation:** any step is taken by or under any authority with a view to the seizure, compulsory acquisition, or expropriation 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
- (ix) **Judicial Proceedings:** 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 being placed under curatorship or in business rescue 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) (save, in any such case, for a merger, amalgamation, consolidation, reconstruction, reorganisation or other similar arrangement on terms approved by an Extraordinary Resolution of the Senior Noteholders); or
- (x) **Enforcement Proceedings:** 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 material part of the undertaking or assets of any of them and such is not discharged, withdrawn or stayed within 30 days.

To determine whether Financial Indebtedness or a Guarantee in respect of Financial Indebtedness, as the case may be, constitutes Material Indebtedness for the purposes of Condition 10(a)(iii) (*Cross-Acceleration*) above, any Financial Indebtedness or Guarantee in respect of Financial Indebtedness which is in a currency other than South African Rand shall be converted into South African Rand at the spot rate for the sale of South African Rand against the purchase of the relevant currency quoted by any leading bank of South Africa selected at the time of the relevant default (as contemplated in Condition 10(a)(iii) (*Cross-Acceleration*) above) under the relevant Financial Indebtedness or Guarantee in respect of Financial Indebtedness, as the case may be.

(b) Events of Default relating to Tier 2 Notes

The provisions of this Condition 10(b) (*Events of Default relating to Tier 2 Notes*) apply to Tier 2 Notes only and is for the benefit of Tier 2 Noteholders only.

- (i) Notwithstanding any of the provisions below in this Condition 10(b) (*Events of Default relating to Tier 2 Notes*), the remedies available to Tier 2 Noteholders in circumstances where payment of principal or interest (as the case may be) has become due and payable, but remains unpaid, is limited to the right to institute winding-up proceedings. If default shall be made in the payment of any principal or interest due on the Tier 2 Notes of the relevant Series for a period of ten days or more after any date on which the payment of principal or interest is due (as the case may be), any Tier 2 Noteholder of that Series may, subject to Condition 3(b) (*Status of the Tier 2 Notes*), and 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 may not take any other action in respect of that default; provided that no action may be taken by a Tier 2 Noteholder if the Issuer withholds or refuses to make any such payment in order to comply with any law or regulation of any relevant jurisdiction or to comply with any order of a court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, the Issuer will not be in default if it acts on the advice given to it during such ten day period by independent legal advisers of recognised standing.
- (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 Tier 2 Note shall, upon written notice from relevant Tier 2 Noteholder to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent (and addressed to the Issuer), be declared immediately due and payable whereupon it shall (subject to Condition 3(b) (*Status of the Tier 2 Notes*) and the Capital Regulations), become immediately due and payable at its Early Redemption Amount (as specified in the relevant Final Terms) together with accrued interest (if any) without further action or formality save that the Tier 2 Noteholders may only receive payment once Depositors and Senior Creditors have been paid in full, as contemplated in Condition 3(b) (*Status of the Tier 2 Notes*) above.
- (iii) Without prejudice to paragraphs (i) and (ii) above, if the Issuer breaches any of its obligations under the Tier 2 Notes (other than any payment obligation arising out of or in connection with the Tier 2 Notes including, but not limited to, in respect of the payment of principal or interest on such Tier 2 Notes) then each Tier 2 Noteholder may at its discretion and without further notice but subject to the Capital Regulations, 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, or satisfy any other payment obligation in relation to, such Series of Tier 2 Notes earlier than the same would otherwise have been payable by it.

(c) Notification of Event of Default

If the Issuer becomes aware of the occurrence of any Event of Default, the Issuer shall forthwith notify all Noteholders in accordance with Condition 14 (*Notices*).

11 Meetings of Noteholders and Modification

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more Persons holding or representing a clear majority in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned meeting, two or more Persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals (i) to amend the dates of maturity or redemption of the Notes, or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the relevant Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (viii) to change the governing law of the Notes, in which case the necessary quorum shall be two or more Persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., of the aggregate nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) Modification

The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement shall only agree to any modification of the Agency Agreement (including any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement) which is of a formal, minor or technical nature, or is made to correct a manifest error, or which, in the opinion of such parties, could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12 Replacement of Notes, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to Applicable Laws and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of the Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificate, Coupons or further Coupons) and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

13 Further Issues

The Issuer may from time to time, without the consent of the Noteholders or Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (so that, for the avoidance of doubt, references in the conditions of such notes to “**Issue Date**” shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single Series with such Notes, and references in these Conditions to “**Notes**” shall be construed accordingly.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the Financial Times). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

15 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16 Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law and Jurisdiction

(a) Governing Law

The Notes, these Conditions (other than Conditions 3(b) (*Status of Tier 2 Notes*), 3(d) (*Statutory Loss Absorption of Tier 2 Notes*) and 10(b) (*Events of Default relating to Tier 2 Notes*), which are governed by the laws of South Africa), the Coupons and the Talons and any non-contractual obligations arising out of or in connection with the Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England have jurisdiction to settle any Disputes and accordingly any Proceedings may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Coupons and Talons only, and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Appropriate Forum

The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

(d) Service of Process

The Issuer appoints Law Debenture Corporate Services Limited of fifth floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14 (*Notices*). Nothing shall affect the right of any Noteholder to serve process in any manner permitted by law.

(e) Consent to Enforcement etc.

The Issuer consents generally in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including (without limitation) the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which is made or given in such Proceedings.

18 Definitions

In these Conditions, the following expressions have the following meanings:

“Additional Conditions” means, in relation to any issue of Tier 2 Notes, such conditions (in addition to the conditions specified in the applicable Capital Regulations) set out hereon as may be prescribed by the Relevant Regulator for such Tier 2 Notes to qualify as Tier 2 Capital at the time of such issue pursuant to the approval granted by the Relevant Regulator for the issue of such Tier 2 Notes.

“Applicable Laws” means in relation to a Person, all and any (a) statutes and subordinate legislation and common law; (b) regulations; (c) ordinances and by-laws; (d) directives, codes of practice, circulars, guidance notices, judgments and decisions of any competent authority (including, but not limited to, any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation); and (e) other similar provisions, from time to time, compliance with which is mandatory for that Person in the context.

“Authorised Holding” has the meaning set out in Condition 1 (*Form, Denomination and Title*).

“Bank” means, in the case of a currency other than Euro, a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

“Banks Act” means the South African Banks Act, 1990, as amended, supplemented or replaced from time to time.

“Business Day” means:

- (i) in the case of a currency other than Euro or Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of Euro, a TARGET Business Day; and/or
- (iii) in the case of a currency and/or one or more Financial Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres; or
- (iv) in the case of Renminbi, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business and settlement of payments in Renminbi in Hong Kong.

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

- (iv) **“FRN Convention”, “Floating Rate Convention” or “Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that:*
- (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day that is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

“Calculation Agent” means Citibank N.A., London Branch, as Calculation Agent under the Agency Agreement or such other Calculation Agent(s) as may be appointed under the Agency Agreement from time to time either generally or in relation to a specific issue or Series of Notes.

“Calculation Amount” means the amount, if any, specified in the relevant Final Terms.

“Capital Regulations” means, 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 (and where relevant, the rules and Additional Conditions applicable specifically to the Issuer as applied by the Relevant Regulator) or if the Issuer becomes domiciled in a jurisdiction other than South Africa, any legislation, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in such other jurisdiction in relation to banks registered in, and licensed to conduct the business of a bank in, such other jurisdiction.

“Central Bank” means SARB, any other central bank, federal reserve or equivalent body in any jurisdiction or any other entity established and operated by any of the aforementioned parties.

“Certificate” means a registered certificate representing the Notes.

“CNH HIBOR” means CNH Hong Kong Interbank Offered Rate.

“CNH Notes” means any Notes denominated in Renminbi.

“Code” means the U.S. Internal Revenue Code of 1986, as amended.

“Controlling Company” African Bank Holdings Limited (registration number 2014/176855/06), a public company with limited liability duly incorporated in accordance with the company laws of South Africa and registered in terms of the Banks Act as a “controlling company” in respect of the Issuer.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **“Calculation Period”**):

- (i) if “**Actual/365**” or “**Actual/Actual-ISDA**” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

- (vi) if “**30E/360 (ISDA)**” is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D2 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

- (vii) if “**Actual/Actual-ICMA**” is specified in the relevant Final Terms,
- (1) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the actual number of days in the Calculation Period divided by the product of:
 - (x) the actual number of days in such Determination Period; and
 - (y) the number of Determination Periods normally ending in any year; and
 - (2) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the actual number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the actual number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the actual number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the actual number of Determination Periods normally ending in any year.

“**Deposit**” means a “deposit” as defined in section 1(1) of the Banks Act.

“**Depositor**” means any Person having a claim against the Issuer in respect of a Deposit, excluding any such Person whose claim in respect of such Deposit (i) ranks or is expressed to rank, *pari passu* with, or junior to the claims of the Tier 2 Noteholders in respect of Tier 2 Notes or (ii) constitutes a claim of the Tier 2 Noteholders in respect of Tier 2 Notes.

“**Determination Date**” means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**Disputes**” means any disputes that may arise out of or in connection with any Notes, Coupons or Talons (including any dispute relating to their existence, validity or termination or any non-contractual obligations arising out of or in connection with them).

“**EURIBOR**” means the Euro Interbank Offered Rate.

“**Event of Default**” means any of the events specified in Condition 10 (*Events of Default*).

“**Exercise Notice**” has the meaning given thereto in Condition 6(f)(ii) (*Redemption at the Option of holders of Senior Notes - Exercise Notice*).

“**Extraordinary Resolution**” has the meaning given thereto in the Agency Agreement.

“**Final Redemption Amount**” means, in respect of any Note, its nominal amount or such other amount as may be specified in the relevant Final Terms.

“**Financial Indebtedness**” means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with Applicable Law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing.

“**Fixed Coupon Amount**” means the amount, if any, specified in the relevant Final Terms.

“**Fixed Rate Note**” means a Note paying a fixed rate of interest.

“**Floating Rate Note**” means a Note paying a floating rate of interest.

“**Governmental Authority**” means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets of Hong Kong or the PRC.

“**Guarantee**” means in relation to any Financial Indebtedness of any person, any obligation of another person to pay such Financial Indebtedness including (without limitation):

- (i) any obligation to purchase such Financial Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness;

- (iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and
- (iv) any other agreement which contains a binding and enforceable obligation to be responsible for such Financial Indebtedness;

“Illiquidity” means the general Renminbi exchange market in Hong Kong has become illiquid, as a result of which it becomes impossible or, having used its reasonable endeavours, impracticable for the Issuer to obtain sufficient Renminbi in order to satisfy (in full or in part) its obligation to make any payment due under the CNH Notes or the Coupons related thereto, as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers.

“Income Tax Act” means the South African Income Tax Act, 1962, as amended, supplemented or replaced from time to time.

“Inconvertibility” means the occurrence of any event as a result of which it becomes impossible or impracticable for the Issuer to convert any amount due in respect of the CNH Notes or the Coupons related thereto in the general Renminbi exchange market in Hong Kong, other than where such impossibility or impracticability is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the date on which the first Tranche of CNH Notes is issued and it is impossible or impracticable for the Issuer to comply with such law, rule or regulation due to an event beyond its control), in each case as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the relevant Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified in the relevant Final Terms.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollar or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro nor Hong Kong dollar nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR.

“Interest Payment Date” means the first Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified in the relevant Final Terms.

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the relevant Series (as specified in the relevant Final Terms)) as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms.

“Issuer Group” means the Issuer and all its Subsidiaries.

“Junior Obligations” means all unsecured, subordinated, direct or indirect obligations of the Issuer that rank, or are expressed to rank, junior to the Issuer's obligations under the Tier 2 Notes (including additional tier 1 notes, Common Equity Tier 1 Capital and all other classes of share capital of the Issuer).

“LIBID” means the London Interbank Bid Rate.

“LIBOR” means the London Interbank Offered Rate.

“LIMEAN” means London Interbank Mean Rate.

“Material Indebtedness” means any Financial Indebtedness or Guarantee in respect of Financial Indebtedness having an aggregate outstanding amount equal to or greater than the higher of:

- (i) 0.25 per cent. of the Total Assets of the Issuer from time to time; and
- (ii) ZAR 100,000,000

or its equivalent in any other currency or currencies.

“Material Subsidiary” means a Subsidiary of the Issuer, the assets of which represent more than 10 per cent. of the Total Assets of the Issuer.

“Non-transferability” means the occurrence of any event as a result of which it becomes impossible or impracticable for the Issuer to deliver Renminbi (i) between accounts inside Hong Kong or (ii) from an account outside Hong Kong to an account inside Hong Kong, other than where such impossibility or impracticability is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the date on which the first Tranche of CNH Notes is issued and it is impossible or, having used its reasonable endeavours, impracticable for the Issuer to comply with such law, rule or regulation due to an event beyond its control), in each case as

determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers.

“**Noteholder**” means the bearer of any Bearer Note relating to it or the person in whose name a Registered Note is registered (as the case may be) and “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or, as the case may be, the person in whose name a Registered Note is registered in the Register (or, in the case of a joint holding, the first named thereof).

“**Notes**” mean Senior Notes or Tier 2 Notes issued by the Issuer.

“**outstanding**” has the meaning set out in the Agency Agreement.

“**Optional Redemption Amount**” means, in respect of any Note, its nominal amount or such other amount as may be specified in the relevant Final Terms.

“**Optional Redemption Date**” means the date(s) specified as such in the relevant Final Terms.

“**Permitted Security Interest**” means any Security Interest created, outstanding or subsisting, directly or indirectly, upon any property or assets (including current and/or future revenues, accounts receivables and other payments) of the Issuer:

- (i) arising out of any securitisation of such property or assets which complies with the Securitisation Regulations at the relevant time;
- (ii) arising out of any asset-backed finance transaction in relation to such property or assets where:
 - (a) the payment obligations secured by such Permitted Security Interest are to be discharged primarily from, and recourse under such Permitted Security Interest is limited to, the proceeds of such property or assets or a guarantee from a Person other than a Person which is a member of the Issuer Group; and
 - (b) such Security Interest is created and asset-backed financing transaction is implemented in accordance with normal market practice, including but not limited to repackaging transactions effected in compliance with the commercial paper regulations of 14 December 1994 issued pursuant to paragraph (cc) of the definition of “*the business of a bank*” in the Banks Act, set out in South African Government Notice 2172 and published in Government Gazette 16167 of 14 December 1994; or
- (iii) provided in favour of a Central Bank where the Relevant Indebtedness secured by such Security Interest has been issued in order to secure the obligations of the Issuer or any Subsidiary to any such Central Bank in respect of any liquidity facility provided by or any other funding arrangement with such Central Bank pursuant to which the Issuer or any Subsidiary incurs any Relevant Indebtedness; or
- (iv) created by operation of law arising out of statutory preferences.

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

“**PRC**” means The People’s Republic of China excluding Taiwan and the Hong Kong and the Macau Special Administrative Region.

“**Proceedings**” means any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons.

“Rate Calculation Business Day” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business (including dealings in foreign exchange) in Hong Kong and New York City.

“Rate Calculation Date” means the day which is two Rate Calculation Business Days before the due date of the relevant amount under these Conditions.

“Rate of Interest” means the rate or rates (expressed as a percentage) of interest payable in respect of a Note (other than a Zero Coupon Note) and that is either specified in the relevant Final Terms or calculated or determined in accordance with the provisions in the relevant Final Terms.

“Record Date” has the meaning given thereto in Condition 7(b)(ii) (*Registered Notes - Interest*).

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount, or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms.

“Reference Banks” means major banks in the interbank market as selected by the Issuer.

“Reference Rate” means one of the following benchmark rates (as specified in the relevant Final Terms) in respect of the Specified Currency and Interest Period: LIBOR, EURIBOR, LIMEAN, LIBID and CNH HIBOR.

“Register” means the register maintained by the Registrar in accordance with the provisions of the Agency Agreement.

“Registrar of Banks” means the South African Registrar of Banks designated under section 4 of the Banks Act.

“Regulatory Change” means 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.

“Regulatory Event” means 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 Notes would, as a result of a Regulatory Change, no longer be eligible to qualify or no longer qualify (on a solo and/or consolidated basis) fully, or to the extent permitted by the Capital Regulations, partially, or will in the future, but prior to the Maturity Date no longer qualify (on a solo and/or consolidated basis) fully, or to the extent permitted by the Capital Regulations, partially as Tier 2 Capital (save where such non-qualification arises only as a result of any applicable limitation on the amount of such capital or any amortisation of recognition of Tier 2 Capital under the Capital Regulations in the final five years prior to maturity) of the Issuer or its Controlling Company on a solo and/or a consolidated basis.

“Relevant Date” in respect of any Note or Coupon means the date on which payment in respect of such Note or Coupon first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation or, as the case may be, surrender of the Note or Coupon (or (if applicable) the relevant Certificate) being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

“Relevant Financial Centre” means the Financial Centre specified in the relevant Final Terms.

“Relevant Indebtedness” means any present or future Financial Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock or other similar securities which for the time being are, or are capable of being, quoted, listed or ordinarily dealt in or traded on any stock exchange or other recognised securities market (including, without limitation, any over-the-counter market) and having an original maturity of more than 364 days from its date of issue.

“Relevant Regulator” means the Registrar of Banks pursuant to the Banks Act and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

“Relevant Time” means the time specified in the relevant Final Terms.

“Renminbi” means the lawful currency of the PRC.

“Renminbi Dealer” means an independent foreign exchange dealer of international repute active in the Renminbi exchange market in Hong Kong.

“SA Companies Act” means the South African Companies Act 2008, as amended, supplemented or replaced from time to time.

“SARB” means the South African Reserve Bank.

“Securitisation Regulations” means the *“Exemption Notice Relating to Securitisation Schemes”* as promulgated in the South African Government Notice R2 in Government Gazette 30628 of 1 January 2008, as amended, supplemented or replaced from time to time.

“Security Interest” means any mortgage, charge, lien, pledge or other security interest, excluding any such mortgage, charge, lien, pledge or other security interest arising out of statutory preferences or by operation of law.

“Senior Creditors” means:

- (i) creditors of the Issuer (including the Senior Noteholders) whose claims against the Issuer are in respect of unsubordinated obligations of the Issuer; and
- (ii) creditors of the Issuer (including the Senior Noteholders) whose claims are or are expressed to be or rank in priority to all or certain claims which are subordinated (whether only in the event of the winding up, liquidation or curatorship of the Issuer or otherwise) to the claims of other creditors of the Issuer (whether such other creditors' claims are subordinated or unsubordinated), other than those creditors whose claims rank, or are expressed to rank, *pari passu* with, or junior to the claims of Tier 2 Noteholders in respect of Tier 2 Notes.

“Senior Noteholders” means the holders of Senior Notes.

“Senior Notes” means Notes specified as such in the relevant Final Terms.

“Series” means 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) except for their respective Issue Date, Interest Commencement Date and/or Issue Price.

“**Solvent Reconstruction**” means an order is made or an effective resolution is passed for the winding-up or curatorship of the Issuer (i) 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 (ii) where an arrangement with similar effect not involving bankruptcy or insolvency is implemented.

“**Specified Currency**” means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Notes are denominated.

“**Spot Rate**” means, for a Rate Calculation Date, the spot rate between Renminbi and U.S. Dollars, as determined by the Calculation Agent in good faith at or around 11.00 a.m. (Hong Kong time) on such date, and if a spot rate is not readily available, such rate that the Calculation Agent may determine taking into consideration all available information which the Calculation Agent deems relevant, including pricing information obtained from the Renminbi non-deliverable exchange market in Hong Kong or elsewhere and the PRC domestic foreign exchange market.

“**Subsidiary**” has the meaning set out in section 1 of the SA Companies Act.

“**TARGET Business Day**” means a day on which the TARGET System is operating.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

“**Tax Event**” means an event where, as a result of a Tax Law Change,

- (i) the Issuer has paid or will or would on the next Interest Payment Date be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*); or
- (ii) in respect of the Issuer’s obligation to make any payment of interest on the next following Interest Payment Date or any subsequent Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in South Africa, or such entitlement is materially reduced,

and in each case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it (such reasonable measures to exclude any requirement to instigate litigation in respect of any decision or determination of the South African Revenue Service that any such interest does not constitute a tax deductible expense).

“**Tax Law Change**” means in relation to each Note in a Series of Notes a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of South Africa or any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment is announced on or after the date of issue of the first Tranche of Notes of the relevant Series.

“**Tier 2 Capital**” means “tier 2 capital” as defined in section 1(1) of the Banks Act.

“**Tier 2 Noteholder**” means a holder of a Tier 2 Note.

“**Tier 2 Notes**” means Notes specified as such in the applicable Final Terms.

“**Total Assets of the Issuer**” means the aggregate of all of the assets of the Issuer and its consolidated Subsidiaries as set out in the most recently published audited consolidated financial statements of the Issuer from time to time and if no such financial statements of the Issuer have been published at such time, means all

of the assets of the Issuer and its consolidated Subsidiaries as certified by the Chief Financial Officer of the Issuer.

“Tranche” means Notes which are identical in all respects (including as to listing).

“Transaction Effective Date” means 4 April 2016 or such earlier or later date as may be announced.

“U.S. Dollar Equivalent” means the Renminbi amount converted into U.S. Dollars using the Spot Rate for the relevant Rate Calculation Date as determined by the Calculation Agent.

“Zero Coupon Note” means a Note specified as such in the relevant Final Terms.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Upon:

(a) in the case of Bearer Notes, the initial deposit of a Global Note with a Common Depositary; or (b) in the case of Registered Notes, the registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relevant Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Note or the Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each Temporary Global Note will be exchangeable free of charge to the holder, on or after its Exchange Date (defined below):

- (i) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (see “*Subscription and Sale - Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole but not in part and on a day after the expiry of 40 days after its issue upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part (except as provided under “*Partial Exchange of Permanent Global Notes*”), for Definitive Notes if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a

continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

If the applicable Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(a) (*Transfer of Registered Notes*) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Issuer;

provided that, in the case of any transfer pursuant to (i) or (ii) above, the Registered Noteholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Noteholder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due.

Delivery of Notes

On or after any due date for exchange the holder of a Global Note may, in the case of an exchange in whole, surrender such Global Note or, in the case of a partial exchange, present it for endorsement to, or to the order of, the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or (in the case of a Global Certificate) Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Base Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Definitive Notes and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

“**Exchange Date**” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions.

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(f)(v) will apply to the Definitive Notes only.

Record Date

Each payment in respect of a Global Certificate will be made to the person shown as the Noteholder in the Register at the opening of business on the Clearing System Business Day before the due date for such payment (the “**Record Date**”), where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Certificate is being held is open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note or Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder’s holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by a reduction in the nominal amount of the relevant Permanent Global Note.

Purchase

Notes represented by a Permanent Global Note or a Global Certificate may, subject to Condition 6(i) (*Conditions to Redemption, Purchase or Modification of Tier 2 Notes*) and the Capital Regulations, only be purchased by the Issuer or any of its Subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

Issuer's Option

Any option provided to the Issuer in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that the Issuer's option is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

Noteholders' Option

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or a Global Certificate may be exercised by the holder of the Permanent Global Note or Global Certificate, as the case may be, by giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent, the Registrar or any Transfer Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent or Transfer Agent, as the case may be, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and shall state the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation or, in the case of the Global Certificate, for a reduction in the aggregate nominal amount of the Certificate in the register of the Noteholders.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate.

Legend to appear on Tier 2 Global Notes or Global Certificates

The Global Note and Global Certificate representing Tier 2 Notes will bear a legend to the following effect:

*"The Tier 2 Notes represented by this Global [Note/Certificate] qualify as capital for the issuing bank in terms of the provisions of the South African Banks Act, 1990 (the "**Banks Act**"). Any direct or indirect acquisition of the Tier 2 Notes represented by this Global [Note/Certificate] by a bank or controlling company, as defined in the Banks Act, or by a non-bank subsidiary of a bank or controlling company, shall be regarded as a deduction against the capital of the acquiring bank or controlling company in question, in an amount equal to the book value of the said investment in the Tier 2 Notes represented by this Global [Note/Certificate].*

The Tier 2 Notes represented by this Global [Note/Certificate] constitute direct, unsecured and, in accordance with Condition 3(b) (Status of Tier 2 Notes), subordinated obligations of the Issuer and rank (i) pari passu without any preference amongst themselves, (ii) save for those that have been accorded preferential rights by law, at least pari passu with all other subordinated obligations of the Issuer (other than any subordinated obligations which rank or are expressed to rank senior to the Issuer's obligations under the Tier 2 Notes) including but not limited to subordinated obligations in the form of other Tier 2 Notes and Tier 2 Capital, whether issued before the date of issue of the Tier 2 Notes represented by this Global [Note/Certificate] or thereafter, (iii) ahead of and in priority to all Junior Obligations and (iv) behind in priority to all claims of Depositors and Senior Creditors.

In the event of the dissolution of the Issuer or if the Issuer is wound-up or put into liquidation or curatorship, voluntarily or involuntarily, the claims of the Holders of the Tier 2 Notes shall be subordinated to the claims of Depositors and Senior Creditors (each such term as defined in Condition 18 (Definitions)). In any such event, no amount shall be payable to any Holder of the Tier 2 Notes represented by this Global [Note/Certificate] until the claims of Depositors and Senior Creditors which are admissible in any such dissolution, winding-up, liquidation or curatorship have been paid or discharged in full, as set out more fully in Condition 3(b) (Status of the Tier 2 Notes).

The Relevant Regulator has approved the issue of the Tier 2 Notes represented by this Global [Note/Certificate] in terms of the Banks Act (as read with Regulation 38(14)(a)(ii) of the "Regulations Relating to Banks" promulgated under the Banks Act) and for such Tier 2 Notes to rank as "tier 2 capital" as defined in the Banks Act.

TAXATION

The following summary of certain South African and European Union consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set out herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not constitute a legal opinion or tax advice. In addition this summary does not purport to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.

South Africa

Withholding Tax

Under current taxation law in South Africa, all payments made under the Notes to Noteholders who are tax “**resident**” in South Africa (as defined in section 1 of the Income Tax Act) will be made free of withholding or deduction for or on account of any taxes in South Africa.

Part IVB of the Income Tax Act (“**Part IVB**”) imposes a final withholding tax on interest (“**Withholding Tax**”) levied at a rate of 15 per cent. 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, subject to any exemptions from Withholding Tax or Withholding Tax relief provided for in an applicable double taxation agreement.

The Withholding Tax does not, however, apply to payments made by the Issuer to non-resident Noteholders as the provisions exempt from Withholding Tax any amount of interest paid to a non-resident Noteholder in respect of any interest paid by a “**bank**” (as defined in section 1 of the Banks Act), provided there is not a “**back-to-back**” arrangement between any non-resident Noteholder and the Issuer, as well as interest paid in respect of any “**listed debt**”, which is defined as debt that is listed on a recognised exchange. The London Stock Exchange constitutes a recognised exchange in accordance with paragraph 1 of the Eighth Schedule to the Income Tax 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) is subject to income tax on 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, abatements, allowances and exemptions, on any interest earned in relation to the Notes.

South African tax non-resident persons are subject to income tax on all income derived from a South African source (subject to domestic exemptions or relief in terms of applicable double taxation agreements). 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) 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” in terms of section 9(2)(b) of the Income Tax Act. The Issuer is tax resident in South Africa as at the date of this Base Prospectus. 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, any amount of interest that 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:

- (a) that person 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) the debt from which the interest arises is effectively connected to a permanent establishment of that person in South Africa.

If a Noteholder that is not a tax resident of South Africa 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 nominal amount of a Note is treated as part of the interest income on the Note for tax purposes. Interest income that 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 issue price or transfer price 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.

In respect of years of assessment commencing on or after 1 January 2014, section 24JB of the Income Tax Act deals with the fair value taxation of financial instruments for certain types of “covered persons”, for example, South African banks. It provides, generally, that a covered person must include in or deduct from income for any year of assessment, all amounts in respect of financial assets and financial liabilities recognised in profit or loss in the statement of comprehensive income and which are recognised at fair value in terms of International Accounting Standard 39 of the International Financial Reporting Standards (“IAS 39”) or any other standard that replaces IAS 39. Financial assets and financial liabilities are defined with reference to definitions in International Accounting Standard 32 of the International Financial Reporting Standards (“IAS32”) or any other International Accounting Standard that replaces IAS 32.

Section 8F of the Income Tax Act applies to “hybrid debt instruments”, and section 8FA of the Income Tax Act applies to “hybrid interest”. Sections 8F and 8FA provide that interest incurred on a hybrid debt instrument and hybrid interest are, for purposes of the Income Tax Act, deemed to be a dividend *in specie*. If either of these provisions apply the tax treatment of the interest paid under the Notes will differ from what is set out above and such payments may be subject to dividends tax as a result of the deemed classification as dividends *in specie*.

Both section 8F and 8FA contain exemptions for a tier 1 or tier 2 capital instrument referred to in the regulations issued in terms of section 90 of the Banks Act issued by a bank as defined in the Banks Act. To the extent that sections 8F and/or 8FA apply to the Notes, then the abovementioned exemptions should apply to the extent that the Notes constitute tier 1 or tier 2 capital instruments referred to in the regulations issued in terms of the Banks Act, and on the basis that the Issuer is a “bank” as defined in the Banks Act.

Noteholders are advised to consult their own professional advisers as to whether these provisions may apply to them.

Capital gains tax

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 tax 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.

Capital gains and capital losses of tax residents of South Africa on the disposal of Notes are subject to capital gains tax, provided that the Notes are held with a capital intention. 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 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 previously 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 and will not give rise to a capital loss.

To the extent that a Noteholder constitutes a “**covered person**” (as defined in section 24JB of the Income Tax Act) and section 24JB applies to the Notes, the capital gains tax provisions would not apply.

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.

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 as contemplated in section 2(1) of the VAT Act, 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.

FATCA withholding

Pursuant to certain provisions of U.S. law, commonly known as “**FATCA**”, certain “foreign financial institutions” generally are required to 1) identify certain information regarding their “financial accounts” that are held by U.S. persons and entities with substantial U.S. ownership and 2) report such information to the government of the United States or another relevant jurisdiction. In addition, a foreign financial institution may

be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements imposed by FATCA. The Issuer believes that it is a foreign financial institution for these purposes. A number of jurisdictions (including South Africa) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in such jurisdictions.

Certain aspects of the application of these rules to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are not clear at this time. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Additionally, Notes (other than Notes that are treated as equity for U.S. tax purposes) issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” and, therefore, would not be subject to FATCA withholding unless materially modified after such date. However, if additional notes (as described under “*Terms and Conditions of the Notes—Further Issues*”) that are not distinguishable from Notes issued prior to the expiration of the grandfathering period are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all such Notes that cannot be distinguished from Notes issued after the expiration of the grandfathering period as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person would be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Notes will be distributed by the Issuer and/or any person appointed as dealer (a “**Dealer**”) by the Issuer in terms of a distribution agreement (if any) relating to the Programme or issue of Notes thereunder.

The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale. A distribution agreement may provide for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer may agree to pay a Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer may agree to reimburse Dealers for certain of their expenses incurred in connection with the Programme and for certain of their activities in connection with the Programme.

The Issuer may agree to indemnify Dealers against certain liabilities in connection with the offer and sale of the Notes. A distribution agreement may entitle Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Certain Dealers and their respective affiliates may perform investment banking and advisory services for, and provide credit facilities to, the Issuer for which they may receive customary fees and expenses.

Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer in the ordinary course of their respective businesses. The Issuer may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any credit facilities provided by Dealers or their respective affiliates.

A distribution agreement may make provision for the resignation or termination of appointment of Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Except to the extent expressly provided in any offer documentation pertaining to the relevant Notes, the Notes offered hereby are being offered and sold only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer appointed under the Programme will be required to agree that, except as permitted by the Issuer, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering or the issue date of an identifiable tranche of which such Notes are a part, as determined and certified to the Fiscal Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Fiscal Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit

of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the later of the commencement of the offering and the issue date of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers (if any) reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. Except to the extent expressly provided in any offer documentation pertaining to the relevant Notes, this Base Prospectus does not constitute an offer to any person in the United States. Except to the extent expressly provided in any offer documentation pertaining to the relevant Notes, distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

- (A) Where the D Rules are specified in the relevant Final Terms as being applicable in relation to any Tranche of Notes, each Dealer appointed under the Programme will be required to represent, undertake and agree that:
- (i) except to the extent permitted under United States Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”) (a) it has not offered or sold, and will not offer or sell, any Bearer Notes to a person who is within the United States or its possessions or to a U.S. person, and (b) it has not delivered and will not deliver within the United States or its possessions Bearer Notes in definitive form that are sold during the restricted period;
 - (ii) it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees and agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. person, except as permitted by the D Rules;
 - (iii) if it is a U.S. person, it is acquiring the Bearer Notes for purposes of resale in connection with their original issuance and, if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulations §1.163-5(c)(2)(i)(D)(6);
 - (iv) with respect to each affiliate (if any) that acquires from such Dealer Bearer Notes for the purposes of offering or selling such Notes during the restricted period, such Dealer either repeats and confirms the representations, undertakings and agreements contained in sub-clauses (i), (ii), (iii) and (v) on such affiliate’s behalf or agrees that it will obtain from such affiliate for the benefit of the Issuer the representations, undertakings and agreements contained in such sub-clauses (i), (ii), (iii) and (v); and
 - (v) shall obtain for the benefit of the Issuer the representations, undertakings and agreements contained in sub-clauses (i), (ii), (iii) and (iv) of this paragraph from any person other than its affiliate with whom it enters into a written contract (a “distributor” as defined in United States

Treasury Regulations §1.163-5(c)(2)(i)(D)(4)), for the offer or sale during the restricted period of the Bearer Notes.

- (B) In addition, where the C Rules are specified in the relevant Final Terms as being applicable in relation to any Tranche of Notes, such Notes must in their original issuance be issued and delivered outside the United States and its possessions and, accordingly, each Dealer appointed under the Programme will be required to represent, undertake and agree that in connection with the original issuance of the Notes:
- (i) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Bearer Notes within the United States or its possessions; and
 - (ii) it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or such Dealer is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Bearer Notes.

Terms used in sub-clauses (A) and (B) have the meanings given to them by the U.S. Internal Revenue Code and the regulations thereunder, including the C Rules and the D Rules.

Public Offer 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 appointed under the Programme will be required to represent, warrant 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 which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms 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:

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) at any time to fewer than 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
- (iii) 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 (i) to (iii) 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 and the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (i) in relation to any Notes which have a maturity of less than one year:

- (a) 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;
- (b) 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 FSMA by the Issuer;

- (ii) 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
- (iii) 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.

China

Each Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Hong Kong

In relation to each further Tranche of Notes issued by the Issuer, each Dealer appointed under the Programme will be required to represent and agree that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance.

Singapore

Each Dealer appointed under the Programme will be required to acknowledge that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such

Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under to Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A) and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulation 2005 of Singapore.

South Africa

Prior to the issue of any Tranche of Notes under the Programme, each Dealer appointed under the Programme 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 respect of the Notes in that Tranche of Notes, and will itself not sell the Notes in respect of that Tranche of Notes, in South Africa, in contravention of the Companies Act, 2008, the Banks Act, 1990, the Exchange Control Regulations and/or any other applicable laws and regulations of South Africa enforced from time to time.

In relation to South Africa, each Dealer appointed under the Programme will be required to represent and agree (and will be deemed to have represented and agreed) that it will not make an “offer to the public” (as such expression is defined in the Companies Act and which definition includes any section of the public) of Notes (whether for subscription, purchase or sale) in South Africa. This Base Prospectus 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 for a single addressee acting as principal 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 such offer is made to certain investors contemplated in section 96(1)(a) of the Companies Act, or pursuant to

another exemption contemplated in section 96(1) of the Companies Act, or made in an issuance to an identified investor or to identified investors who do not constitute the public or a section of the public as contemplated in the Companies Act.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Base Prospectus or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as referred to in Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time; and
- (ii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the “**FIEA**”) and each Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws, regulations and ministerial guidelines of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and any Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus or, in the case of PD Exempt Instruments only, in the Pricing Supplement issued in respect of the issue of Notes to which it relates.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer appointed under the Programme will be required to agree that it will comply with all relevant laws, regulations and directives in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes or publishes this Base Prospectus, any other offering material or any Final Terms (in all cases at its own expense) and neither the Issuer nor any other Dealer shall have responsibility therefor. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers (if any) to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expenses.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

The Issuer is a limited liability company incorporated in South Africa and the majority of its assets are currently located outside the United Kingdom. In addition, all of the Issuer's directors and executive officers are residents of countries other than the United Kingdom. As a result, it may be impossible for Noteholders to:

- effect service of process within the United Kingdom upon the Issuer or any of its directors or executive officers named in this Base Prospectus; or
- enforce, in the English courts, judgments obtained outside English courts against the Issuer or any of the Issuer's directors and executive officers named in this Base Prospectus.

In addition, it may be difficult for Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws.

Choice of law

In any proceedings for the enforcement of the obligations of the Issuer, the South African courts will generally give effect to the choice of foreign law as contemplated in the Notes as the governing law thereof.

Jurisdiction

Subject as set out below, the Issuer's irrevocable submission under the Notes to the jurisdiction of a foreign court is generally legal, valid, binding and enforceable under the laws of South Africa, and any judgment obtained in a foreign jurisdiction will be recognised and be enforceable by the courts of South Africa without the need for re-examination of the merits. The appointment by the Issuer of an agent within the jurisdiction of a foreign court to accept service of process in respect of the jurisdiction of the foreign courts is generally valid and binding on the Issuer.

Under South African law, a court will not accept a complete ouster of jurisdiction, either by way of a choice of jurisdiction clause or arbitration clause although generally it recognises party autonomy and gives effect to choice of jurisdiction and arbitration provisions. However, jurisdiction remains within the purview of the court and a court may, in certain instances, assume jurisdiction provided there are sufficient jurisdictional connecting factors. South African courts may, in rare instances, choose not to give effect to a choice of jurisdiction clause, if, for example, such choice is contrary to public policy.

The Supreme Court of Appeal of South Africa has held that if proceedings have been instituted in a court in South Africa, a party wishing to invoke the protection of a foreign jurisdiction or arbitration clause should do so by way of a special or dilatory plea seeking a stay of the proceedings, in which case a South African court would have a discretion whether or not to enforce the foreign jurisdiction or arbitration clause. In addition, proceedings before a court of South Africa may be stayed if the subject of the proceedings is concurrently before any other court.

Recognition of foreign judgments

Subject to the permission (where required) of the Minister of Finance in terms of the Protection of Businesses Act, 1978 (as amended) ("**Protection of Businesses Act**") any authenticated judgment for money obtained in a court of competent jurisdiction other than South Africa will be recognised and enforced in accordance with procedures ordinarily applicable under South African law for the enforcement of foreign judgments ("**common law enforcement proceedings**"), provided that the process is properly served, judgment was pronounced by a proper court of law, the judgment was final and conclusive, has not become superannuated,

and has not been obtained by fraud or in any manner opposed to natural justice or contrary to the international principles of due process and procedural fairness, the enforcement thereof is not contrary to South African public policy and the foreign court in question had jurisdiction and international competence according to the applicable rules recognised by the laws of South Africa. The South African courts will not enforce foreign revenue or penal law, nor will they recognise or enforce a foreign judgment which contravenes section 1A of the Protection of Businesses Act which prohibits the payment of multiple or punitive damages.

A foreign judgement creditor instituting legal proceedings in South Africa to enforce a foreign judgment, may be required to provide security for costs in accordance with rule 47 of the rules of the High Court of South Africa (the “**High Court**”).

Where obligations are to be performed in a jurisdiction outside South Africa they may not be enforceable under the laws of South Africa to the extent that such performance would be illegal or contrary to public policy under the laws of South Africa, or the foreign jurisdiction or to the extent that the law precludes South African courts from granting extra territorial orders.

In regard to the execution of a foreign civil judgement that is made by an order of the court in South Africa:

- once such order is made by a South African court, the judgement creditor may issue a writ of execution through the office of the registrar of such court;
- rules 45 and 46 of the rules of the High Court regulate the execution of movable and immovable property respectively. Once a writ of execution is issued and delivered to the sheriff of the High Court (the “**Sheriff**”), the Sheriff will follow the processes set out in such rules in the execution of such court order;
- where practicable, any property attached by the Sheriff under a writ of execution must be sold by the Sheriff by public auction to the highest bidder after the advertisement of the auction. This auction procedure is regulated by section 45 of the Consumer Protection Act, 2008 (the “**CPA**”), which together with the regulations promulgated thereunder (as amended) (the “**CPA Regulations**”) set out how an auction pursuant to such a court order is to be conducted and the records to be made with respect to property placed for auction. The sale of any such property by an auctioneer must comply with all the general provisions of the CPA Regulations relating to auctions and auctioneers that are applicable to an auction conducted by the Sheriff. The CPA Regulations provide that any provision in any agreement relating to goods sold or bought at an auction or advertised or offered for sale at an auction, or any agreement providing for conducting the auction itself, in conflict with the CPA Regulations, does not from the moment of its conception or conclusion, have any force or effect; and
- a writ of execution against immovable property may only be issued if the immovable property has been declared specially executable under such court order or if the return made in respect of a writ issued against movable property states that the judgement debtor does not have sufficient movable property to satisfy the writ.

Effect of liquidation on civil proceedings

In general and subject to certain exceptions, civil proceedings (including arbitration proceedings) instituted by or against an insolvent entity are automatically stayed on the liquidation of the insolvent entity’s estate until the appointment of a liquidator. A plaintiff/creditor wishing to continue with such proceedings against an insolvent individual must give notice of its intention to do so within a period of three weeks from the date of the first meeting of creditors, in accordance with the provisions of the South African Insolvency Act, 1936 (as amended), failing which the proceedings lapse. In circumstances where the court finds that there was a

reasonable excuse for a failure to give the requisite notice, it has a discretion to allow a plaintiff/creditor to continue with proceedings on such conditions as it thinks fit.

In respect of an insolvent company, the plaintiff or applicant who wishes to continue with proceedings against the company stayed upon the winding-up thereof must give the liquidator at least three weeks' notice in writing before continuing therewith. This notice must be given within four weeks after the appointment of the liquidator. If such notice is not given, the proceedings are to be considered to have been abandoned unless the Court otherwise directs.

Execution against the insolvent entity's assets is similarly stayed.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [•]

[ISSUER NAME]

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

under the U.S.\$[•]

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the “**Conditions**”) set out in the Base Prospectus dated 29 March 2016 [and the Base Prospectus Supplement dated [•]] ([together,]the “**Base Prospectus**”) which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5(4) of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. In accordance with Article 14 of the Prospectus Directive, the Base Prospectus is available for viewing at [address] [and] [website] and copies may be obtained from [address].

1	Issuer:	[K2014176899 (SOUTH AFRICA) LIMITED/African Bank Limited]
2	[(i)] Series Number:	[•]
	[(ii)] Tranche Number:	[•]]
	[(iii)] Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [•] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [•] below [which is expected to occur on or about [•]]].]
3	Specified Currency or Currencies:	[•]
4	Aggregate Nominal Amount:	
	[(i)] Series:	[•]
	[(ii)] Tranche:	[•]]
5	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]

6	(i) Specified Denominations:	[●]
	(ii) Calculation Amount:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●][Issue Date][Not Applicable]
8	Maturity Date:	[●]
9	Interest Basis:	[[●] per cent. fixed rate] [[●] month [LIBOR/EURIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] (See paragraph [14/15/16] below)
10	Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [[●]/[100]] per cent. of their nominal amount.
11	Change of Interest Basis:	[●]
12	Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable] (See paragraph [17/18] below)
13	(i) Status of the Notes:	[Senior] [Tier 2]
	(ii) Date approval for issuance of Notes obtained:	[●][Not applicable]/[This issue of Notes has been approved in accordance with the authorities granted by the board of directors of the Issuer on [●]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note Provisions:	[Applicable/Not Applicable]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly/[●]] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]/not adjusted]
	(iii) [Interest Payment Date Adjustment:	[Applicable/Not Applicable]]
	(iv) Fixed Coupon Amount[(s)]:	[[●] per Calculation Amount][Not Applicable]
	(v) Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment date falling [in/on] [●]][Not Applicable]
	(vi) Day Count Fraction:	[Actual/365; Actual/Actual-ISDA; Actual/365 (Fixed); Actual/360; 30/360; 360/360; Bond Basis; 30E/360; Eurobond Basis; 30E/360 (ISDA); Actual/Actual-ICMA]

(vii) Determination Dates:

[●] in each year

Floating Rate Note Provisions:

[Applicable/Not Applicable]

(i) Interest Period(s):

[●][, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]

(ii) Specified Interest Payment Dates:

[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]

(iii) First Interest Payment Date:

[●]

(iv) Business Day Convention:

[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]

(v) Business Centre(s):

[●]

(vi) Manner in which the Rate(s) of Interest is/are to be determined:

[Screen Rate Determination/ISDA Determination]

(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):

[●]

(viii) Screen Rate Determination:

– Reference Rate:

[●] month [LIBOR/EURIBOR]

– Interest Determination Date(s):

[●]

– Relevant Screen Page:

[●]

– Relevant Time:

[[●] in the Relevant Financial Centre]

(ix) ISDA Determination:

– Floating Rate Option:

[●]

– Designated Maturity:

[●]

– Reset Date:

[●]

(x) Linear Interpolation

[Not Applicable/Applicable – the [Rate of Interest] for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]

(xi) Margin(s):

[+/-][●] per cent. per annum

(xii) Minimum Rate of Interest:

[●] per cent. per annum

(xiii) Maximum Rate of Interest:

[●] per cent. per annum

(xiv) Day Count Fraction:

[Actual/365; Actual/Actual-ISDA; Actual/365]

		(Fixed); Actual/360; 30/360; 360/360; Bond Basis; 30E/360; Eurobond Basis; 30E/360 (ISDA); Actual/Actual-ICMA]
	(xv) ISDA Definitions:	[2006 ISDA Definitions (as amended and updated)]
16	Zero Coupon Note Provisions:	[Applicable/Not Applicable]
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Day Count Fraction in relation to Early Redemption Amounts:	[Actual/365; Actual/Actual-ISDA; Actual/365 (Fixed); Actual/360; 30/360; 360/360; Bond Basis; 30E/360; Eurobond Basis; 30E/360 (ISDA); Actual/Actual-ICMA]
PROVISIONS RELATING TO REDEMPTION		
17	Call Option:	[Applicable [, subject to the applicable Capital Regulations]/Not Applicable]
	(i) Optional Redemption Date(s) (Call):	[●]
	(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●] days
18	Put Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii) Notice period:	[●] days
19	Final Redemption Amount of each Note:	[●] [Par] per Calculation Amount
20	Early Redemption Amount:	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:	[●]/[Par] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21	Form of Notes:	Bearer Notes:
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited

circumstances specified in the Permanent Global Note].

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

[Registered Notes:

[Global Certificate exchangeable for individual Certificates on [●] days' notice/at any time/in the limited circumstances specified in the Global Certificate]]

[Not Applicable/Applicable - [●]].

- 22 Financial Centre(s):
- 23 Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):

[Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made./No]

THIRD PARTY INFORMATION

[(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

APPROVAL

The Issuer confirms that the requisite approval has been obtained from the Financial Surveillance Department of the South African Reserve Bank for this issuance of Notes.

Signed on behalf of the Issuer:

By: _____
Duly authorised

By: _____
Duly authorised

PART B – OTHER INFORMATION

1 **Listing and admission to trading**

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]]
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]]
[Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: [●]

2 **Ratings**

[The Notes to be issued [have been/are expected to be] rated/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]/[Not applicable]:

Ratings: S&P: [●]

3 **Interests of Natural and Legal Persons involved in the Issue/Offer**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.] [●]

4 **[Fixed Rate Notes only - Yield]**

Indication of yield: [●]
The yield is calculated as at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5 **Operational Information**

ISIN: [●]
Common Code: [●]
Any clearing system(s) other than Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable][●]
Delivery: Delivery [against/free of] payment
Names and addresses of initial Paying and Transfer Agent(s): [●]
Names and addresses of additional Paying and Transfer Agent(s) (if any): [●]

Distribution

- (i) Method of distribution [Syndicated/Non-syndicated]
- (ii) If syndicated:
 - (A) Name of Managers: [Not Applicable/[●]]
 - (B) Stabilising Manager(s) (if any): [Not Applicable/[●]]
- (iii) If non-syndicated, name of [Dealer]: [Not Applicable/[●]]
- (iv) U.S. Selling Restrictions: Reg S Compliance Category: [1]/[2]/[3]
[TEFRA C/TEFRA D/TEFRA Not Applicable]

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Instruments issued under the Programme will be substantially in the following form, duly completed to reflect the particular terms of the relevant PD Exempt Instruments and their issue.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC, AS AMENDED (THE “**PROSPECTUS DIRECTIVE**”) FOR THE ISSUE OF THE INSTRUMENTS DESCRIBED BELOW. THE UK LISTING AUTHORITY HAS NEITHER APPROVED NOR REVIEWED ANY INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT AND ANY INSTRUMENTS ISSUED PURSUANT TO THIS PRICING SUPPLEMENT ARE NOT COMPLIANT WITH THE PROSPECTUS DIRECTIVE.

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the “**Conditions**”) set forth in the Base Prospectus dated 29 March 2016 [and the Base Prospectus Supplement dated [●]] ([together,]the “**Base Prospectus**”). This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement [and] the Base Prospectus [and the Swiss listing prospectus dated [●]] (the “**Swiss Listing Prospectus**”) prepared in connection with the listing of the Notes on the SIX Swiss Exchange Ltd (“**SIX Swiss Exchange**”). The Base Prospectus [and the Swiss Listing Prospectus] [are/is] available for viewing during normal business hours at the registered offices of the Issuer at [●] and copies may be obtained from the registered offices of [the Fiscal Agent][Bär & Karrer AG] at [●].

1	Issuer:	[K2014176899 (SOUTH AFRICA) LIMITED/African Bank Limited]
2	[(i) Series Number: (ii) Tranche Number: (iii) Date on which the Notes become fungible:	[●] [●] [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [insert description of the Series] on [insert date]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below [which is expected to occur on or about [insert date]]].]
3	Specified Currency or Currencies: [Additional Conditions: Provisions applicable to Tier 2 Notes:	[●] [●] [●] (For Notes that are also Tier 2 Notes specify the Additional Conditions (if any) prescribed by the Relevant Regulator and those of the applicable regulations (if any) which are

not set out in the Terms and Conditions or elsewhere in this Pricing Supplement.))

4	Aggregate Nominal Amount:	
	[(i) Series:	[●]]
	[(ii) Tranche:	[●]]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)]
6	(i) Specified Denominations:	[●]
	(ii) Calculation Amount:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●]/Issue Date/Not Applicable]
8	Maturity Date:	[●] <i>[Floating rate or fixed rate CNH Notes where the Interest Payment Dates are subject to adjustment – Interest Payment Date falling in or nearest to [●]]]</i>
9	Interest Basis:	[[●] per cent. fixed rate] [[●] +/- [●] per cent. Floating Rate]
		[Zero Coupon]
10	Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [[●]/[100]] per cent. of their nominal amount.
11	Change of Interest or Redemption/Payment Basis:	[Not Applicable]
12	Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable]
13	(i) Status of the Notes:	[Senior] [Tier 2]
	(ii) Date approval for issuance of Notes obtained:	[●][Not applicable]/[This issue of Notes has been approved in accordance with the authorities granted by the board of directors of the Issuer on [●]]

(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly/ [●]] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]/not adjusted]
	(iii) [Interest Payment Date Adjustment (CNH Notes):	[Applicable/Not Applicable]
	(iv) Fixed Coupon Amount[(s)]:	[[●] per Calculation Amount][Not Applicable]
	(v) Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]][Not Applicable]
	(vi) Day Count Fraction:	[Actual/365; Actual/Actual-ISDA; Actual/365 (Fixed); Actual/360; 30/360; 360/360; Bond Basis; 30E/360; Eurobond Basis; 30E/360 (ISDA); Actual/Actual-ICMA; [●]]
	(vii) Determination Dates:	[●] in each year
	(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/[●]]
15	Floating Rate Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Interest Period(s):	[●][, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]
	(ii) Specified Interest Payment Dates:	[●][, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]
	(iii) First Interest Payment Date:	[●]
	(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[●]/Not Applicable]
	(v) Business Centre(s)	[●]
	(vi) Manner in which the Rate(s) of	[Screen Rate Determination/ISDA]

	Interest is/are to be determined:	Determination]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):	[●]
	(viii) Screen Rate Determination:	
	– Reference Rate:	[●]
	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●]
	– Relevant Time:	[[●] in the Relevant Financial Centre]
	(ix) ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	(x) Linear Interpolation	[Not Applicable/Applicable – the [Rate of Interest] for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (<i>specify for each short or long interest period</i>)]
	(xi) Margin(s):	[+/-][●] per cent. per annum
	(xii) Minimum Rate of Interest:	[●] per cent. per annum
	(xiii) Maximum Rate of Interest:	[●] per cent. per annum
	(xiv) Day Count Fraction:	[Actual/365; Actual/Actual-ISDA; Actual/365 (Fixed); Actual/360; 30/360; 360/360; Bond Basis; 30E/360; Eurobond Basis; 30E/360 (ISDA); Actual/Actual-ICMA; [●]]
	(xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
	ISDA Definitions:	[2006 ISDA Definitions (as amended and updated)]
16	Zero Coupon Note Provisions:	[Applicable/Not Applicable] (if not applicable, delete the remaining subparagraphs of this paragraph)
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Day Count Fraction in relation to Early Redemption Amounts:	[Actual/365; Actual/Actual-ISDA; Actual/365 (Fixed); Actual/360; 30/360; 360/360; Bond Basis; 30E/360; Eurobond Basis; 30E/360 (ISDA); Actual/Actual-ICMA; [●]]
	(iii) Any other formula/basis of	[●]

determining amount payable:

PROVISIONS RELATING TO REDEMPTION

17	Call Option:	[Applicable[, subject to the applicable Capital Regulations]/Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Optional Redemption Date(s) (Call):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●] days
18	Put Option:	[Applicable/Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Optional Redemption Date(s) (Put):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●] days
19	Final Redemption Amount of each Note:	[●] per Calculation Amount
	(i) Party responsible for calculating the Final Redemption Amount (if not the Fiscal Agent):	[●]
	(ii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iii) Determination Date(s):	[●]
	(iv) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(v) Payment Date:	[●]
	(vi) Minimum Final Redemption Amount:	[●] per Calculation Amount
	(vii) Maximum Final Redemption	[●] per Calculation Amount

Amount:

20

Early Redemption Amount:

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21

Form of Notes:

[Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note].

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

[To be included for Swiss CHF issuances:]

[The Notes will initially be issued in bearer form and will, upon issue, be represented by a Permanent Global Note substantially in the form scheduled to the supplemental agency agreement dated [●] (the “**Supplemental Agency Agreement**”) between the Issuer, [●] in its capacity as the Swiss principal paying agent (the “**Swiss Principal Paying Agent**”) and others.

The Permanent Global Note is exchangeable in whole but not in part for Registered Notes represented by individual Certificates only (i) if the Swiss Principal Paying Agent deems the printing of individual Certificates to be necessary or useful, after consultation with the Issuer, or if, under Swiss or any other applicable laws and regulations, the enforcement of the obligations under the Notes can only be ensured by means of effective individual Certificates or (ii) upon the occurrence of the events specified in the Permanent Global Note. In such cases, the

Issuer shall provide, at its own cost and expense, for the printing and delivery of individual Certificates in accordance with the rules and regulations of SIX SIS AG, located in Olten, Switzerland (the “SIS” or the “Intermediary”, which expression shall include any other clearing institution recognised by the SIX Swiss Exchange).

The Notes issued on exchange of the Permanent Global Note will not be issued in bearer form, but exclusively in registered form for U.S. tax purposes.

The Permanent Global Note shall be deposited with SIS and shall be immobilised and may not be transferred by SIS until final redemption of the Notes or the exchange of the Permanent Global Note for Registered Notes represented by individual Certificates. The Permanent Global Note will document the right to receive principal and interest thereon and all other rights and obligations in connection therewith.

Once the Permanent Global Note has been deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Notes will constitute intermediated securities (“**Intermediated Securities**”) in accordance with the Swiss Federal Intermediated Securities Act.

Each holder of the Notes shall have a quotal co-ownership interest in the Permanent Global Note to the extent of its claim against the Issuer, provided that for so long as the Permanent Global Note remains deposited with the Intermediary, the co-ownership interest shall be suspended and the Notes may only be transferred by the entry of the transferred Notes in a securities account of the transferee.

The records of the Intermediary will determine the number of Notes held through each participant in that Intermediary. In respect of the Notes held in the form of Intermediated Securities, the holders of the Notes will be the persons holding the Notes in a securities account which is in their name, or in case of an Intermediary, the Intermediary holding the Notes for its own account in a securities account which is in its name.

		<p>Holders of the Notes do not have the right to effect or demand the conversion of the Permanent Global Note into, or the delivery of, uncertificated securities or Registered Notes.]</p> <p>[Registered Notes:</p> <p>[Global Certificate exchangeable for individual Certificates on [●] days' notice/at any time/in the limited circumstances specified in the Global Certificate]]</p>
22	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/Applicable - [●]].
23	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made./No]
24	[Other final terms:	
	(i) Payments:	<p><i>[To be included for Swiss CHF issuances:]</i></p> <p>Payments of principal and interest in respect of the Notes (denominated in Swiss Francs) will be made without collection costs in Switzerland and without any restrictions and irrespective of nationality, domicile or residence of a Noteholder and without requiring any certification, affidavit or the fulfilment of any other formality.</p> <p>The receipt by the Swiss Principal Paying Agent of the due and punctual payment of the funds in Swiss Francs in Zurich releases the Issuer from its obligation under the Notes for the payment of interest and principal due on the respective payment dates to the extent of such payment.</p> <p>Condition 7 shall be construed accordingly.</p>
	(ii) Paying Agents:	<p>In respect of the Notes (denominated in Swiss Francs), the Issuer will at all times maintain a Swiss paying agent having a specified office in Switzerland and will at no time maintain a paying agent having a specified office outside Switzerland in relation to such Notes.</p> <p>Condition 7(e) shall be construed accordingly.</p>
	(iii) Notices:	<p>So long as the Notes are listed on the SIX Swiss Exchange and so long as the rules of the SIX Swiss Exchange so require, all notices in</p>

respect of the Notes will be validly given through the Swiss Principal Paying Agent (i) by means of electronic publication on the internet website of the SIX Swiss Exchange (<https://www.six-exchange-regulation.com/en/home/publications/official-notices.html>), or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange.

Condition 14 shall be construed accordingly.]

THIRD PARTY INFORMATION

[(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

APPROVAL

The Issuer confirms that the requisite approval has been obtained from the Financial Surveillance Department of the South African Reserve Bank for this issuance of Notes.

Signed on behalf of the Issuer:

By: _____
Duly authorised

By: _____
Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]]
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]][Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- [The Notes to be issued [have been/are expected to be] rated/[Not applicable]:
- Ratings: S&P: [●]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business/[●]]

4 Fixed Rate Notes only - Yield

- Indication of yield: [●]
- The yield is calculated as at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5 OPERATIONAL INFORMATION

- ISIN: [●]
- Common Code: [●]
- [Swiss Security Number: [●] [To be included for Swiss CHF issuances]]
- Any clearing system(s) other than Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable][●]
- Delivery: Delivery [against/free of] payment
- Names and addresses of initial Paying and Transfer Agent(s): [●]
- Names and addresses of additional Paying and Transfer Agent(s) (if any): [●]

6 DISTRIBUTION

- | | |
|--|--|
| (i) Method of distribution | [Syndicated/Non-syndicated] |
| (ii) If syndicated: | |
| (A) Name of Managers: | [Not Applicable/[●]] |
| (B) Stabilising Manager(s) (if any): | [Not Applicable/[●]] |
| (iii) If non-syndicated, name of [Dealer]: | [Not Applicable/[●]] |
| (iv) U.S. Selling Restrictions: | Reg S Compliance Category: [1]/[2]/[3]
[TEFRA C/TEFRA D/TEFRA Not Applicable] |
| (v) Additional selling restrictions: | [Not Applicable/[●]] |

GENERAL INFORMATION

(1) Listing

The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of one or more Global Notes or Global Certificates in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 4 April 2016. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes may be issued pursuant to the Programme.

(2) Authorisations

The establishment of the Programme was authorised by a resolution of the board of directors of the Issuer passed on 10 December 2015. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of its obligations under the Notes.

(3) Significant/Material Change

Save as set out below, there has been no material adverse change in the prospects of the Issuer since 30 September 2015:

- the financial statements of the Issuer at 30 September 2015 reflect a dormant set of audited financial statements. The Issuer will be used to effect the Restructuring as from the Transaction Effective Date. Details of the Restructuring are set out in the section headed “*Curatorship Of African Bank And Summary Of Restructuring – The Restructuring*”;
- the impact of the Restructuring will be that the Issuer will take up the Good Book, together with specific operational assets and obligations of African Bank, will issue the New Senior Debt Instruments and New Subordinated Debt Instruments and will have received a further capital injection of ZAR9.75 billion (in addition to the ZAR250m which was contributed by the Consortium on 11 March 2016), as described below; and
- the risks that exist in terms of the completion of the Restructuring are set out in the section headed “*Risk Factors - Risks related to the Restructuring and the Issuer’s strategy*”.

Save as set out hereafter, there has been no significant change in the financial or trading position of the Group since 30 September 2015. In anticipation of the Restructuring and in order to procure the registration of the Issuer as a bank pursuant to the Banks Act, the Consortium has commenced the capitalisation of the Issuer by way of subscription for shares in the Issuer of an amount equal to ZAR250 million, which forms part of the overall ZAR10 billion of capital to be contributed by the Consortium via New HoldCo by the Transaction Effective Date. These subscription monies were deposited into the bank account of the Issuer on 11 March 2016.

(4) Approvals

Notes which are intended to qualify as Tier 2 Capital to be issued under the Programme are “debt instruments” as contemplated by section 79(1)(b) of the Banks Act. Accordingly, the Issuer requires the consent of the Relevant Regulator in accordance with section 79(1)(b) of the Banks Act and Regulation 38 of

the Regulations Relating to Banks, for permission to issue Notes which are intended to qualify as Tier 2 Capital under the Programme.

The Issuer will have to obtain the approval of the FinSurv for the issue of each Tranche of Notes under the Programme.

(5) Legal and Arbitration Proceedings

There are no, and have not been any, governmental, 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 during the period since 9 September 2014 a significant effect on the financial position or profitability of the Issuer.

(6) Clearing Systems

The Notes have been accepted for clearance through the Euroclear and/or Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The appropriate Common Code and/or the ISIN (and, where applicable, the identification number, together with any further appropriate information, for any other relevant clearing system) for each Series of Notes will be specified in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Final Terms.

(7) Bearer Notes

Each Bearer Note with an original maturity of more than one year, Coupon and Talon will bear the following legend.

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code of 1986, as amended”.

(8) Issue Price

The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

(9) Third Party Information

Where information in this Base Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

(10) Documents Available

For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer:

- (i) the Agency Agreement (which includes the forms of the Notes, Coupons, Talons and the Certificates);
- (ii) the Deed of Covenant;

- (iii) the constitutional documents of the Issuer;
- (iv) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity); and
- (v) a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Prospectus.

This Base Prospectus and each Final Terms for Notes listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/prices-and-news/prices-news/home.htm.

(11) **Auditors of African Bank**

Deloitte & Touche (“**Deloitte**”), situated at The Woodlands, 20 Woodlands Drive, Woodmead, 2196 South Africa, has acted as the independent auditor of the financial statements of African Bank for the financial years ended 30 September 2014 and 30 September 2015. The appointment of the independent auditor of African Bank falls within the responsibilities of the Curator, and is separate from the appointment of independent auditors by the Issuer. Deloitte has acted as the Reporting Accountant in respect of the *pro forma* financial information of the Issuer contained in this Programme, included in Annexure A3 to this Base Prospectus.

Deloitte issued modified audit opinions on the historical financial information of African Bank for the financial years ended 30 September 2015 and 30 September 2014. The audited financial statements for the financial years ended 30 September 2015 and 2014, including the audit opinions, are incorporated by reference in this Base Prospectus.

The audit opinion on the African Bank annual financial statements for the year ended 30 September 2015 was qualified with reference to the following two specific matters:

- (i) The Good Book carrying value is disclosed separately as part of assets classified as held for sale in the statement of financial position of African Bank as at 30 September 2015. The credit scoring model of African Bank is central to the identification of the Good Book advances. While Deloitte was able to verify the criteria for the Good Book advances as well as a sample of inputs into the credit scoring model and assess the accuracy of the Good Book/Residual Book split based on the credit score assigned by the credit scoring model, Deloitte was unable to obtain sufficient appropriate audit evidence about the accuracy, validity and completeness of the credit score calculated per the latest credit scoring model. The resulting qualification relates to Deloitte’s ability to determine whether any adjustments were necessary to the disclosure of the Good Book at 30 September 2015; and
- (ii) Deloitte had a different view to African Bank regarding African Bank’s decision to write off the carrying value (ZAR831 million) of its portfolio of advances in arrears for an extended period of time. Deloitte held the view that this portfolio should not be fully written off, given post write off recoveries.

The audit opinion on the African Bank historical financial information for the year ended 30 September 2014 was disclaimed as a result of the following:

- (i) the African Bank financial statements have been prepared on a “break-up” basis on the presumption that the Restructuring will go ahead and that African Bank is not a going concern. Given Deloitte’s assessment of the uncertainties associated with the ability of African Bank to implement the Restructuring, it was unable to obtain sufficient appropriate audit evidence to support this basis of accounting; and

- (ii) Deloitte had a different view to African Bank on the historic treatment of changed assumptions impacting portfolio credit impairment provisioning on advances. These changes were treated as restatements, while Deloitte was of the view that these changes should have been treated as changes in estimates.

The above disclaimer on the audit opinion was not repeated in the audit opinion of Deloitte for the financial year ended 30 September 2015.

For the purposes of Prospectus Rule 5.5.4R(2)(f) Deloitte accepts responsibility for the information contained in Annexure A6 to this Base Prospectus and declares that it has taken all reasonable care to ensure that the information contained in Annexure A6 is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The report contained in Annexure A6 has been prepared by Deloitte, situated at Deloitte Place, The Woodlands, 20 Woodlands Drive, Woodmead, 2196 South Africa, Chartered Accountants (South Africa), the auditors of African Bank. Deloitte has no material interest in the Issuer. The report has been included at the Issuer's request and has been so included, in the form and context in which is included, with the consent of Deloitte which has authorised its contents.

(12) Auditors of the Issuer

PricewaterhouseCoopers Inc., situated at 2 Eglin Road, Sunninghill, 2157, South Africa, is the appointed independent auditor of the Issuer. The audited financial statements of the Issuer have been reported on without qualification for the year ended 30 September 2015 by PricewaterhouseCoopers Inc and are included in Annexure A2 to this Base Prospectus.

The appointment of PricewaterhouseCoopers Inc. as independent auditor of the Issuer falls within the responsibilities of the board of directors of the Issuer, and is separate from the appointment of independent auditors by African Bank.

For the purposes of Prospectus Rule 5.5.4R(2)(f) PricewaterhouseCoopers Inc. accepts responsibility for their report included in Annexure A2 to this Base Prospectus and declares that it has taken all reasonable care to ensure that the information contained in their report included in Annexure A2 is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. The preparation of the financial statements of the Issuer contained in Annexure A2 is the responsibility of the Issuer,

The report contained in Annexure A2 has been prepared by PricewaterhouseCoopers Inc., situated at the address stated above, chartered accountants (South Africa), registered auditors with the JSE Limited and auditors of the Issuer. PricewaterhouseCoopers Inc. has no material interest in the Issuer. The report has been included at the Issuer's request and has been so included, in the form and context in which is included, with the consent of PricewaterhouseCoopers Inc. which has authorised its contents.

(13) Yield

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the issue date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the issue date of the Notes and will not be an indication of future yield.

ANNEXURE A FINANCIAL INFORMATION

Financial information included in this Annexure A comprises the following:

Historical financial information

Annexure	Description
Annexure A1 African Bank annual financial information – 30 September 2015 Page A-3	Comprises extracts from the African Bank audited annual statutory financial statements of the following: <ul style="list-style-type: none"> - Statement of financial position - Statement of profit or loss - Statement of other comprehensive income - Statement of changes in equity - Statement of cash flows The full set of annual financial statements, including the notes thereto, is available at www.africanbank.co.za or at https://www.africanbank.co.za/about-us/investors
Annexure A2 Good Bank legal entity dormant historical financial information Page A-6	Comprises the Good Bank legal entity dormant historical audited financial statements as at 30 September 2015

Pro forma financial information of Good Bank

Annexure	Description	Status
Annexure A3 Good Bank pro forma financial information for the year ended 30 September 2015 Page A-17	A pro forma statement of financial position and a statement of profit or loss are presented as at an assumed Transaction Effective Date of: <ul style="list-style-type: none"> - 30 September 2015 for purposes of preparing the statement of financial position - 1 October 2014 for purposes of preparing the statement of profit or loss 	Pro forma financial information is based on the Restructuring. The Reporting Accountant's report on this pro forma financial information is contained in Annexure A6.

Forecast financial information for African Bank and Good Bank

Annexure	Description	Status
Annexure A4 African Bank	Forecast financial information for African Bank for the six months ending 31 March 2016: <ul style="list-style-type: none"> - Abridged statement of financial position - Abridged statement of profit or loss 	Forecast financial information is based on the Restructuring.

Page A-25

Annexure A5 Good Bank	Forecast financial information for the Good Bank from 1 April 2016 to 30 September 2018, including the formation of the Good Bank Balance Sheet as at an assumed Transaction Effective Date of 1 April 2016: <ul style="list-style-type: none"> - Abridged statements of financial position - Abridged statements of profit or loss - Abridged cash flow statements
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Reporting accountant's reports

Annexure	Description
Annexure A6 Reporting accountant's report on pro-forma financial information	Reporting accountant's report on pro-forma financial information included in Annexure A3

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African Bank annual financial information
30 September 2015

EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

The information contained in this annexure has not been reviewed by or reported on by the company's auditors, however, it has been extracted from audited annual statutory financial statements.

AFRICAN BANK LIMITED (in Curatorship)
ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
at 30 September 2015

	2015	2014
	<i>ZAR million</i>	
Assets		
Short-term deposits and cash	6 294	3 582
Assets classified as held for sale.....	37 436	—
Statutory assets	—	3 042
Derivatives and other assets.....	—	3 048
Net advances	6 767	38 739
Deferred tax asset	—	—
Loan to affiliated companies	182	529
Property and equipment.....	—	455
Intangible assets	—	107
Total assets	50 679	49 502
Liabilities and equity		
Short-term funding	21 326	6 764
Liabilities associated with assets classified as held for sale	4 453	—
Derivatives and other liabilities	101	1 010
Bonds and other long-term funding	26 524	36 436
Subordinated bonds, debentures and loans	4 569	4 436
Loan from affiliated companies	535	471
Total liabilities	57 508	49 117
Ordinary share capital.....	121	121
Ordinary share premium.....	14 283	14 283
Reserves and accumulated losses	(21 233)	(14 019)
Total equity (capital and reserves)	(6 829)	385
Total liabilities and equity	50 679	49 502

STATEMENT OF PROFIT OR LOSS
for the year ended 30 September 2015

	2015	2014
	<i>ZAR million</i>	
Interest income on advances	8 720	11 727
Non-interest income	2 273	2 924
Income from operations	10 993	14 651
Credit impairment charge	(10 816)	(13 297)
Risk-adjusted income from operations	177	1 354
Other interest income	484	423
Interest expense and similar charges	(4 601)	(4 688)
Operating costs	(2 698)	(2 834)
Indirect taxation: VAT	(59)	(40)
Loss from operations	(6 697)	(5 785)
Other (losses)/gains	(185)	47
Capital items	(330)	(1 403)
Loss before taxation	(7 212)	(7 141)
Direct taxation: current and deferred	—	(2 158)
Loss for the year	(7 212)	(9 299)

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 30 September 2015

	2015	2014
	<i>ZAR million</i>	
Loss for the year	(7 212)	(9 299)
Other comprehensive income comprising items that are or may subsequently be reclassified to profit or loss:		
Movement in cash flow hedge reserve	—	(180)
Net change in fair value of available-for-sale financial assets	(2)	—
Other comprehensive loss for the year (net of tax)	(2)	(180)
Total comprehensive loss for the year	(7 214)	(9 479)

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2015

	Ordinary share capital	Ordinary share premium	(Accumu- lated losses)	Available for sale reserve	Cash flow hedging reserve	Total
	<i>ZAR million</i>					
Balance at 30 September 2013						
(restated)	121	8 833	(4 720)	—	180	4 414
Total comprehensive loss for the year	—	—	(9 299)	—	(180)	(9 479)
Ordinary shares issued.....	—	5 450	—	—	—	5 450
Balance at 30 September 2014	121	14 283	(14 019)	—	—	385
Total comprehensive loss for the year	—	—	(7 212)	(2)	—	(7 214)
Balance at 30 September 2015	121	14 283	(21 231)	(2)	—	(6 829)

STATEMENT OF CASH FLOWS
for the year ended 30 September 2015

	2015	2014
	<i>ZAR million</i>	
Cash generated from operations	9 354	10 005
Cash received from lending activities and cash reserves.....	11 432	15 292
Recoveries on advances previously written off	528	474
Cash paid to clients, suppliers of funding, employees and agents.....	(2 606)	(5 761)
Decrease/(increase) in gross advances	509	(7 509)
(Increase)/decrease in statutory assets	(417)	804
(Decrease)/increase in customer deposits	(5)	20
Indirect and direct taxation paid	(59)	(43)
Cash inflow/(outflow) from operating activities	9 382	3 277
Cash outflow from investing activities	(143)	(141)
Acquisition of property and equipment (to maintain operations)	(129)	(89)
Acquisition of intangible assets (to maintain operations).....	(31)	(26)
Net movement in other investing activities	17	(26)
Cash inflow/(outflow) from financing activities	1 705	(2 584)
Cash inflow/(outflow) from funding activities	1 705	(8 034)
Ordinary shareholder's payments and transactions	—	5 450
Increase in cash and cash equivalents	10 944	552
Cash and cash equivalents of disposal group classified as held for sale	(8 232)	—
Cash and cash equivalents at the beginning of the year	3 582	3 030
Cash and cash equivalents at the end of the year	6 294	3 582

Good Bank legal entity dormant historical financial information

K2014176899 (SOUTH AFRICA) LIMITED

(Registration number: 2014/176899/06)

FINANCIAL STATEMENTS

30 September 2015

These financial statements were prepared under the supervision of the Chief Financial Officer, G Raubenheimer CA (SA), and have been audited in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

FINANCIAL STATEMENTS

30 September 2015

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DIRECTOR'S RESPONSIBILITY STATEMENT
for the period ended 30 September 2015

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 30 September 2015, the statement of changes in equity and the statement of cash flows for the period 9 September 2014 (date of incorporation) to 30 September 2015, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements set out on pages 7 to 11 were approved by the board of directors and signed on its behalf on 4 November 2015 by:

B Riley
Director

G Raubenheimer
Director

REPORT TO THE SHAREHOLDER OF K2014176899 (SOUTH AFRICA) LIMITED

We have audited the financial statements of K2014176899 (South Africa) Limited set out on pages 7 to 11, which comprise the statement of financial position as at 30 September 2015, and the statement of changes in equity and statement of cash flows for the period 9 September 2014 (date of incorporation) to 30 September 2015, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of K2014176899 (South Africa) Limited as at 30 September 2015, and its financial performance and its cash flows for the period 9 September 2014 to 30 September 2015 in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the period ended 30 September 2015, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the preparers. Based on reading this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on this report.

PricewaterhouseCoopers Inc.

Director: Thomas Magill

Registered Auditor

Sunninghill

4 November 2015

DIRECTORS' REPORT

30 September 2015

The directors present their report to the shareholder for the period ended 30 September 2015.

General review

K2014176899 (South Africa) Limited was incorporated in South Africa on 9 September 2014. The company was dormant during the 2015 financial.

Share capital

The company is authorised to issue the following number of shares:

- 1 000 ordinary no par value shares, which shall have one voting right per share and shall be entitled to receive the net assets of the company upon its liquidation;
- 100 000 000 unclassified no par value shares without any specified associated preferences, rights, limitations or other terms in respect of which the board must determine the associated preferences, rights, limitations or other terms prior to issuing such shares.

As at 30 September 2015 the company had only one ordinary share in issue.

Directors

In terms of Memorandum of Incorporation, the board of directors of the company comprises of at least three directors.

Company's board of directors:

Name	Designation	Date appointed	Date resigned
Michael Mervyn Katz	Executive director	9 September 2014	24 June 2015
Lebusa Meso	Executive director	9 September 2014	24 June 2015
Doron Joffe	Executive director	9 September 2014	10 September 2015
Louis Leon von Zeuner	Non-executive chairman	26 June 2015	
Basani Maluleke	Non-executive director	28 July 2015	
Brian Riley	Executive director	24 June 2015	
Frans Johannes Christiaan Truter	Non-executive director	7 August 2015	
Gustav Raubenheimer	Executive director	3 July 2015	
Ignatius Simon Schoole	Non-executive director	28 July 2015	
Louisa Stephens	Non-executive director	2 July 2015	
Sybille Liane McCloghrie	Non-executive director	28 July 2015	

Registered Office

The registered office of the company is at:

59-16th Road
Midrand
Gauteng
1685

Company Secretary

The company secretary had resigned before the signing of the financial statements and as such there was no company secretary appointed as at 30 September 2015. The directors are satisfied that requirements informing the company secretary's certificate have been executed and appropriate steps have been taken for the appointment of a successor company secretary.

Special resolutions

There were no special resolutions passed during the period under review.

Holding Company

The company's holding company is K2015219110 (South Africa) Limited.

Events subsequent to year end

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the company financial statements, which significantly affects the financial position at 30 September 2015 or the results of its operations or cash flows for the period then ended.

Directors' emoluments

No directors' emoluments were paid by the company during the reporting period.

Auditors

PricewaterhouseCoopers Incorporated is the appointed auditor of the company.

K2014176899 (SOUTH AFRICA) LIMITED

STATEMENT OF FINANCIAL POSITION
as at 30 September 2015

	Notes	2015
Current assets		
Cash and cash equivalents	2	1
Total assets		<u>1</u>
Capital and reserves		
Share capital	3	1
Total liabilities and equity		<u>1</u>

K2014176899 (SOUTH AFRICA) LIMITED

STATEMENT OF CHANGES IN EQUITY
for the period ended 30 September 2015

	Notes	Share capital	Retained earnings	Total
Shares issued	3	1	—	1
Balance at 30 September 2015		1	—	1

K2014176899 (SOUTH AFRICA) LIMITED

STATEMENT OF CASH FLOWS
for the period ended 30 September 2015

	Notes	2015
Cash flows from operating activities		
Cash generated in operations		—
Net cash flow from operating activities		—
Cash flows from investing activities		—
Cash flows from funding activities	4	1
Net increase in cash and cash equivalents.....		1
Cash and cash equivalents at the beginning of the period		—
Cash and cash equivalents at the end of the period	2	1

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 September 2015

1 Significant accounting policies

1.1 Statement of compliance

The company financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”), Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB, the AC 500 standards as issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa (Act 71 of 2008).

1.2 Basis of preparation

The company financial statements have been prepared in accordance with the going concern principle and using a historical cost basis, except where specifically indicated otherwise in the accounting policies.

The company financial statements are presented in South African rand.

There are no standards in issue but not yet effective which have a material impact on the company.

1.3 Assets and liabilities

An asset is a resource controlled by the company as a result of past events and from which future economic benefits are expected to flow to the company.

Assets are recognised if it is probable that future economic benefits will flow to the company and the asset has a cost or value that can be measured reliably.

A liability is a present obligation of the company arising from past events, the settlement of which is expected to result in an outflow, from the company’s resources, embodying economic benefits.

Liabilities are recognised if it is probable that the settlement of the obligation will result in an outflow of resources embodying economic benefits and the settlement amount can be measured reliably.

1.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current accounts with financial institutions.

1.5 Equity

Equity is the residual interest in the assets of the company after deducting all liabilities of the company. All transactions relating to the acquisition and sale or issue of shares in the company, together with their associated costs, are accounted for in equity.

Share capital issued by the company is recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 30 September 2015

	2015
2. Cash and cash equivalents	
Cash on hand	1
Total	1
3. Share capital and premium	
Authorised:	
100 000 000 unclassified no par value shares	100 000 000
1 000 ordinary no par value shares	1 000
Issued:	
Ordinary no par value share	1
Balance at the end of the period	1
Authorised but unissued shares of the company are under the control of the directors.	
4. Cash from funding activities	
Issue of an ordinary no par value share	1
5. Related parties	
The directors and the holding company are the company's only related parties. There were no related parties' transactions during the reporting period under review.	
6. Statement of comprehensive income	
No statement of comprehensive income has been prepared as the Company is dormant and there were no trading activities during the period under review.	
7. Comparative figures	
The company was registered on 9 September 2014, therefore these financial statements reflect the company's financial results and cash flows for a period from incorporation to 30 September 2015. No comparative information is provided as the 2015 financial period is the first reporting period for the company.	

Pro forma financial information of Good Bank for the year ended 30 September 2015

The Good Bank pro forma statement of financial position as at 30 September 2015 and the statement of profit or loss for the year then ended (the “**pro forma financial information**”) have been prepared to show the impact of the Restructuring, based on an assumed Transaction Effective Date of: (i) 1 October 2014 for purposes of the pro forma statement of profit or loss and (ii) 30 September 2015 for the purposes of the pro forma statement of financial position. The pro forma financial information is presented for illustrative purposes only. Furthermore, because of its nature, pro forma financial information addresses a hypothetical situation and therefore does not represent the actual financial position or results of Good Bank, nor does it represent Good Bank’s financial results or financial position going forward.

The pro forma financial information has been compiled from the statement of financial position of African Bank as at 30 September 2015 and from the statement of profit or loss for the year then ended, as contained in the audited financial statements of African Bank. It has been prepared using accounting policies that comply with IFRS, and are consistent with those applied in African Bank’s 30 September 2015 financial statements as well as those expected to be applied in the preparation of the Good Bank financial statements. The pro forma financial information is presented in accordance with the JSE Listings Requirements, and the Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants, and in accordance with Annex II of the PD Regulation for UK Listing Authority purposes.

The directors of Good Bank are responsible for the compilation, contents and preparation of the pro forma financial information. The directors’ responsibility includes determining that the pro forma financial information has been properly compiled on the basis stated, which is consistent with the accounting policies of African Bank and Good Bank and that the pro forma adjustments are appropriate for purposes of the pro forma financial information disclosed pursuant to the JSE Listings Requirements and in accordance with Annex II of the PD Regulation for UK Listing Authority purposes.

Pro forma Statement of Financial Position of Good Bank as at 30 September 2015

ZAR million	African Bank (before the Restructuring) – Note 1	African Bank (expanded) – Note 1	Excluded from the Good Bank Business – Note 2	<i>Pro forma</i> Good Bank Business before the Restructuring	Exchange Offers– Note 3	Equity injection – Note 4	VAT applicable to acquired assets – Note 5	<i>Pro forma</i> Good Bank after the Restructuring
ASSETS								
Short-term deposits and cash.....	6 294	14 526	(5 454)	9 072		10 000		19 072
Assets classified as held for sale.....	37 436	—						—
Statutory assets.....	—	3 905		3 905				3 905
Derivatives and other assets	—	4 644		4 644				4 644
Net advances	6 767	26 912	(6 767)	20 145	827			20 972
Amounts owing by holding company and fellow subsidiaries.....	182	182	(182)					—
Property and equipment	—	436		436	105			541
Intangible assets	—	74		74	63			137
Goodwill	—	—			2 060		(336)	1 724
Total assets.....	50 679	50 679				10 000	(336)	50 995
LIABILITIES AND EQUITY								
Short-term funding.....	21 326	25 351	(21 326)	4 025	17 328			21 353
Liabilities associated with assets classified as held for sale.....	4 453	—						—
Derivatives and other liabilities.....	101	445	(101)	344	212		(106)	450
Bonds and other long-term funding.....	26 524	26 608	(26 524)	84	17 323			17 407
Subordinated bonds debentures and loans	4 569	4 569	(4 569)		1 485			1 485
Amounts owing to fellow subsidiaries.....	535	535	(535)		428			428
Deferred tax liability	—	—			102			102
Total liabilities	57 508	57 508					(106)	41 225
Ordinary share capital and premium.....	14 404	14 404	(14 404)			10 000		10 000
Reserves and accumulated losses	(21 233)	(21 233)	21 233				(230)	(230)
Total equity (capital and reserves).....	(6 829)	(6 829)				10 000	(230)	9 770
Total liabilities and equity.....	50 679	50 679				10 000	(336)	50 995

Notes:

1. Extracted without material adjustment from the audited financial statements of African Bank for the year ended 30 September 2015. In the second column the impact of the IFRS 5 *Non-current assets classified as held for sale and discontinued operations* (“**IFRS 5**”) disclosure in the statutory financial statements has been reversed. This was done for presentation purposes as this presentation in terms of IFRS 5 would not carry forward into the Good Bank.

The Good Bank statement of financial position as at 30 September 2015 represents a dormant starting position with immaterial balances prior to the Restructuring. Please refer Annexure A2 for the historical financial information of Good Bank.

2. These adjustments represent the balances of African Bank which do not form part of the Good Bank Business together with a cash adjustment of ZAR5 454 million to achieve a transferred cash amount of ZAR9 072 million (including collateral cash of ZAR4 005 million which is also transferred). These adjustments are non-recurring and establish the opening position of the Good Bank’s assets and liabilities.
 - (a) The Good Bank Business comprises the Good Book, the Operational Assets, the Retail Deposits and the Operational Liabilities of African Bank. These balances have been sourced and extracted through specific identification from the management accounts supporting the financial statements and the loan ledger records in which Good Book loans are specifically identified.
 - (b) In terms of the Sale of Business agreement, the transferred cash amount balances the Good Bank statement of financial position after accounting for the fair value of other assets and liabilities acquired. The fair value of the assets and the transferred cash amount has been agreed between Good Bank and the Curator on a basis that will afford Good Bank a reasonable prospect of achieving the CET Target. In terms of the Sale of Business Agreement, we have assumed a cash adjustment to balance the statement of financial position after taking into account the pro forma IFRS 3 Business Combinations fair value adjustments (refer to note 3).

3. These adjustments reflect the effect of the Exchange Offers.

These adjustments are non-recurring and establish the opening position of the Good Bank’s assets and liabilities.

Most of the Senior Funders and Other Creditors have agreed to exchange their claims against African Bank for new claims against Good Bank and Residual Bank in terms of the Exchange Offers. Good Bank therefore acquires the Good Bank Business in exchange for the issue of the New Debt Instruments and the assumption of the Retail Deposit Obligations and Operational Liabilities.

The assumed transaction values of the New Senior Debt Instruments issued by the Good Bank are sourced and reflected based on the detailed calculation of these instruments in terms of the Restructuring. The Coupon Service Payment, Senior Cash Payment and Senior Stub Instruments therefore remain in Residual Bank.

Subordinated Funders have participated in the Subordinated Exchange Offer and have elected settlement in New Subordinated Debt Instruments only, i.e. New Subordinated Debt Instruments equal to ZAR1 485 million are to be issued by the Good Bank and no Subordinated Funders have elected to receive New HoldCo Shares.

In accordance with IFRS 3 *Business Combinations* (“IFRS 3”), Good Bank is viewed as the acquirer of the Good Bank Business. Accordingly, Good Bank is required to perform a fair value exercise on the acquired assets and liabilities in terms of IFRS 3. The following fair value adjustments, compared to the carrying values of the Good Bank Business as reported by African Bank, are assumed:

ZAR million	Carrying value	Fair value	Adjustment due to IFRS 3	Source and basis of indicative fair value adjustment
Net advances	20 145	20 972	827	The fair value of the Good Book has been calculated by management using a discounted cash flow technique. The fair value has been estimated by discounting the expected future cash flows (modelled by extrapolating the most recent observed cash flows on the advances book) at the expected rate of return that a potential acquirer would require. The discount rate is a weighted cost of capital based on an assumed long-term debt to equity ratio, consistent with the capital levels required within the banking industry. The methodology applied is consistent with that applied in the audited financial statements of African Bank for the period ended 30 September 2015.
Intangible assets	74	137	63	Brand value on intangible assets is sourced from a pre-acquisition fair value exercise undertaken by management.
Property and equipment .	436	541	105	This adjustment is sourced from the fair values of land and buildings disclosed in the audited financial statements for the year ended 30 September 2015.
Deferred tax liability	—	(102)	(102)	Deferred taxation is provided on temporary differences arising from the fair value adjustments on acquisition.
Goodwill	—	n/a	1 724	The goodwill is based on the amount of goodwill agreed in the Sale of Business Agreement.

The fair value adjustments set out above are based on valuations as described above. A full fair value exercise will be performed after the actual Transaction Effective Date at which time the final fair values of assets and liabilities will be determined.

The fair value of the New Debt Instruments will have to be calculated after the actual Transaction Effective Date. For purposes of these pro forma financial statements, the estimated fair value of New Debt Instruments is based on the value of the debt as disclosed in the audited financial statements.

4. As part of the Restructuring, the Consortium will subscribe for ZAR10 billion of New HoldCo Shares, which in turn will use the cash raised to capitalise Good Bank.
5. VAT of ZAR336 million arises as a result of the sale of the Good Bank Business. In terms of the relevant tax legislation, VAT at a rate of 14 per cent. will be levied on the property and equipment and intangible assets being transferred as well as on the goodwill generated in terms of IFRS 3. African

Bank's VAT apportionment ratio, calculated in terms of tax legislation, has been used in preparing the accounting impact of the VAT charge. The portion of the VAT charge that will be claimed from the tax authorities has been disclosed as part of the net VAT liability. The remaining portion of the VAT charge has been allocated to reserves as a charge through the statement of profit or loss.

6. There are no other subsequent events which require adjustment to the pro forma financial effects.

Pro forma Statement of Profit or Loss of Good Bank for the year ended 30 September 2015

ZAR million	African Bank (before the Restructuring)– Note 1	Excluded from the Good Bank Business– Note 2	Exchange Offers– Note 3	SLA between Good Bank and Residual Bank– Note 4	VAT applicable to acquired assets– Note 5	Goodwill impairment– Note 6	<i>Pro forma</i> Good Bank after the Restructuring
Interest income on advances..	8 720	(2 904)	(2 364)				3 452
Non-interest income	2 273	(829)	(1 126)	953			1 271
Income from operations	10 993	(3 733)	(3 490)	953			4 723
Credit impairment charge	(10 816)	5 727	3 969				(1 120)
Risk adjusted income from operations.....	177	1 994	479	953			3 603
Other interest income	484	(46)					438
Interest expense	(4 601)	4 601	(3 740)				(3 740)
Operating costs	(2 698)	—	(1)				(2 699)
Indirect taxation: VAT	(59)	—			(236)		(295)
Loss from operations.....	(6 697)	6 549	(3 262)	953	(236)		(2 693)
Other losses	(185)	—					(185)
Capital items	(330)	330				(1 724)	(1 724)
Loss before taxation	(7 212)	6 879	(3 262)	953	(236)	(1 724)	(4 602)
Direct taxation: current and deferred	—	—	1 007	(267)			740
Loss for the period	(7 212)	6 879	(2 255)	686	(236)	(1 724)	(3 862)

Notes:

1. Extracted without material adjustment from the audited financial statements of African Bank for the year ended 30 September 2015.

The Good Bank financial statements as at 30 September 2015 represent a dormant starting position with no statement of profit or loss. Please refer Annexure A2 for the historical financial information of Good Bank.

2. These adjustments represent income and expenses in respect of the items not forming part of the Good Bank Business. The Good Bank Business comprises the Good Book, the Operational Assets, the Retail Deposits and the Operational Liabilities of African Bank, together with a transferred cash amount. These balances have been sourced and extracted through specific identification from the management accounts supporting the annual financial statements and the loan ledger records in which Good Book loans are specifically identified. These adjustments are non-recurring insofar as it relates to the one-off effect of the Restructuring, but thereafter it forms the new base for income and expenses of Good Bank.

Adjustments to components of risk adjusted income from operations are made to remove income and expenses which relate to the Residual Book, and therefore to reflect interest income on advances, non-interest income and credit impairment charges relating to the Good Book only.

Adjustments to other interest income are made to reflect interest on assets included in the Good Bank Business only.

No other interest income was assumed on the cash adjustment for purposes of the transferred cash amount (ZAR5 454 million per note 2 to the pro forma statement of financial position). No interest adjustment is assumed on net cash inflow (see also note 7 below) as the use of the cash has not been committed in terms of the Sale of Business Agreement and is therefore assumed to be available for working capital purposes. For illustrative purposes, interest on ZAR5 454 million would have been ZAR327 million (pre-tax). This is based on an assumed return on short-term cash of 6 per cent.

The reported total interest expense is reversed as it is being replaced, based on the economic assumptions of the New Debt Instruments issued by the Good Bank. Refer to the following note for these assumptions.

3. These adjustments reflect the effect of the Exchange Offers.

Subordinated Funders have participated in the Subordinated Exchange Offer and have elected settlement in New Subordinated Debt Instruments only, i.e. New Subordinated Debt Instruments equal to ZAR1 485 million are to be issued by the Good Bank.

These adjustments are non-recurring insofar as it relates to the once off effect of the Restructuring, but thereafter it forms the new base for expenses of Good Bank

Interest expense has been calculated on the New Subordinated Debt Instruments accruing interest at a rate of JIBAR plus 7.25 per cent. (effectively 13.35 per cent.) and New Senior Debt Instruments accruing interest at a weighted average rate of 9.63 per cent. These assumed interest rates are based on the Exchange Offers and the cost of funding for the year.

A downward fair value adjustment of ZAR959 million to the Good Book is assumed as at 30 September 2014. The valuation is based on assumptions which are consistent with those applied in the audited financial statements of African Bank for the year ended 30 September 2014. It is assumed that an amount of ZAR479 million, relating to the fair value adjustment, is amortised and released to

interest income on advances for the year. The amortisation of the fair value adjustment is based on the run-off profile of the Good Book. This adjustment is recurring until such time that the fair value adjustment of ZAR959 million is exhausted.

The line items comprising risk-adjusted income from operations are adjusted to reflect the IFRS recognition of the Good Book at the Transaction Effective Date at fair value. This results in ZAR1 126 million of non-interest income and ZAR3 969 million of the credit impairment charge being reallocated to interest income on advances (a net reduction of ZAR2 843 million). This is a recurring adjustment.

Operating costs are increased by ZAR1 million reflecting the additional amortisation on the fair value adjustment to property. This is a recurring adjustment. No amortisation is calculated on the brand intangible asset of ZAR63 million arising on acquisition as it is treated as an indefinite life intangible asset.

No adjustment is made to operating costs for further non-recurring transaction costs in Good Bank, given that the transaction costs are incurred by African Bank.

A net deferred tax asset is recognised as it is assumed that Good Bank will be profitable in the foreseeable future per the Base Case Projections. The deferred tax liability arising on fair value adjustments on acquisition is reduced at the same rate as the amortisation of the fair value adjustments underlying the deferred tax liability. This is a recurring adjustment.

4. Good Bank and Residual Bank will enter into a Service Level Agreement (“SLA”). A fee of ZAR953 million receivable by Good Bank for the year is assumed based on the detailed terms of the SLA, which will be implemented at the Transaction Effective Date. This adjustment is recurring in nature.
5. In terms of tax legislation, VAT at a rate of 14 per cent. will be levied on the property and equipment and intangible assets being transferred as well as on the goodwill generated in terms of IFRS 3. African Bank’s VAT apportionment ratio, calculated in terms of the relevant tax legislation, has been used in preparing the accounting impact of the VAT charge. The irrecoverable portion of the VAT charge is assumed to be ZAR236 million based on asset values as at 30 September 2014 and presented as a charge through the statement of profit or loss. This is a non-recurring adjustment.
6. A provisional assessment of the carrying value of goodwill in terms of the Good Bank forecast indicates that goodwill may have to be impaired after the Transaction Effective Date. As a result, it has been assumed in the pro forma financial information that goodwill (refer note 3 to the pro forma statement of financial position) is impaired during the first reporting period. This is a non-recurring adjustment. It should be noted that this assessment will have to be reconsidered after the actual Transaction Effective Date.
7. No other interest income was assumed on the ZAR10 billion of share capital raised by Good Bank as part of the Restructuring as the use of the cash has not been committed and is therefore assumed to be available for working capital purposes. For illustrative purposes, such interest would have been ZAR600 million (pre-tax) based on an assumed return on short-term cash of 6 per cent.
8. There are no other subsequent events which require adjustment to the pro forma financial effects.

**African Bank financial information for the twelve months ended 30 September 2015 and
forecast financial information for the six months ending 31 March 2016**

The forecast financial information of African Bank for the six months ending 31 March 2016 is set out below. Comparative information is provided for the twelve months ended 30 September 2015, which has been extracted from the audited financial information of African Bank. The forecast financial information was prepared using accounting policies that comply with IFRS, and are consistent with those applied in African Bank's 30 September 2015 financial statements. The forecast financial information was prepared on a basis comparable with the historical financial information.

The forecast African Bank balance sheet at 31 March 2016 forms the basis for the forecast financial information of the Good Bank Balance Sheet assuming a Transaction Effective Date of 1 April 2016.

The directors of Good Bank are responsible for the forecast information, including the assumptions on which it is based, and for the financial information from which it has been prepared.

The assumptions made and applied in the preparation of the African Bank's forecast financial information set out below, are considered to be the principal assumptions. Without prejudice to the foregoing sentence, these assumptions are not an exhaustive list, nor are they intended to be. The assumptions below are significant to the forecast financial information as being key factors upon which the financial results of African Bank will depend.

Certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the preparation of the forecast financial information. Accordingly, the actual results achieved for the forecast periods may differ from those forecast.

Categorisation of assumptions

Assumptions have been categorised, as appropriate, as follows and presented in brackets where relevant:

- IC – Inside management's control, being those assumptions in respect of which management can exercise some level of influence.
- OC – Outside management's control, being those assumptions that are exclusively outside of management's influence.
- T – Assumptions driven by the Restructuring, and therefore outside management's influence.

Assumptions are based on management best estimates relating to future events which management expects to take place and the actions management expects to take.

A4.1 GENERAL SOURCE AND ASSUMPTIONS

- The forecast financial information for the six months ending 31 March 2016 is based on assumptions relating to the whole of African Bank, as set out below.
- Forecast financial information is generally based on audited financial information to 30 September 2015 and takes into account the trends in earnings and balance sheet line items reported historically to 30 September 2015 adjusted, as set out herein, for key considerations.
- Other than specifically indicated, it is assumed that macro-economic and market conditions remain unchanged and that there are no significant changes in the regulatory environment (OC). Refer to Annexure A5.6 for detailed assumptions on exchange rates and interest rates.
- The statement of financial position at 30 September 2015 (which forms the basis for the forecasts) is also presented on a basis which shows the allocation of assets classified as held for sale to the line items to which they relate. This allows a more transparent presentation for forecasting the line items.
- It has been assumed that the Transaction Effective Date is 1 April 2016 and therefore the forecast of African Bank financial information is for the period up to 31 March 2016.

AFRICAN BANK LIMITED - ABRIDGED STATEMENT OF FINANCIAL POSITION

	Audited 30 September 2015	Extracted from audited 30 September 2015 (expanded assets classified as held for sale items)	Forecast 31 March 2016
		<i>ZAR million</i>	
Assets			
Short-term deposits and cash	6 294	14 526	20 769
Assets classified as held for sale.....	37 436	—	—
Statutory assets	—	3 905	3 162
Derivatives and other assets.....	—	4 644	5 823
Net advances	6 767	26 912	24 936
Loans to affiliated companies	182	182	152
Property and equipment.....	—	436	400
Intangible assets	—	74	68
Total assets	<u>50 679</u>	<u>50 679</u>	<u>55 310</u>
Liabilities and equity			
Short-term funding	21 326	25 351	27 051
Liabilities associated with assets classified as held for sale	4 453	—	—
Derivatives and other liabilities	101	445	1 081
Bonds and other long-term funding	26 524	26 608	30 121
Subordinated bonds, debentures and loans*	4 569	4 569	5 306
Loans from affiliated companies	535	535	671
Total liabilities	<u>57 508</u>	<u>57 508</u>	<u>64 230</u>
Ordinary share capital.....	121	121	121
Ordinary share premium.....	14 283	14 283	14 283
Reserves and accumulated losses	(21 233)	(21 233)	(23 324)
Total equity (capital and reserves)	<u>(6 829)</u>	<u>(6 829)</u>	<u>(8 920)</u>
Total liabilities and equity	<u><u>50 679</u></u>	<u><u>50 679</u></u>	<u><u>55 310</u></u>

Note:

- * Within the figures extracted from the 30 September 2015 financial statements, coupon payments past due in relation to subordinated bonds has been presented within short term funding. For the purposes of the forecast March 2016 figures and formation of Good Bank Balance Sheet, all outstanding subordinated bonds, including coupon payments are included within subordinated bonds, debentures and loans in order to clearly distinguish between senior and subordinated debt.

AFRICAN BANK LIMITED - ABRIDGED STATEMENT OF PROFIT OR LOSS
for the period ended

	Audited 12 months September 2015	Forecast 6 months March 2016
	<i>ZAR million</i>	
Interest income on advances	8 720	3 566
Non-interest income	2 273	816
Income from operations	10 993	4 382
Credit impairment charge	(10 816)	(2 198)
Risk-adjusted income from operations	177	2 184
Other interest income	484	484
Interest expense and similar charges	(4 601)	(3 220)
Operating costs	(2 698)	(1 601)
Indirect taxation: VAT	(59)	(65)
Loss from operations	(6 697)	(2 218)
Other losses	(185)	—
Capital items	(330)	127
Loss before taxation	(7 212)	(2 091)
Direct taxation: current and deferred	—	—
Loss for the year	(7 212)	(2 091)

A4.2 STATEMENT OF FINANCIAL POSITION ASSUMPTIONS

A4.2.1 Short-term deposits and cash

Short-term deposits and cash are independently forecast by the Treasury function of African Bank, assuming a rate of cash collections, disbursements, operating costs and capital expenditure. On the forecast balance sheet, cash levels are based upon forecasts for other balance sheet items in particular the loan book and liabilities. However forecast levels are compared for reasonableness against the Treasury forecast financial information both from a final March 2016 closing balance perspective, as well as from a monthly build up perspective (OC).

A4.2.2 Collateral cash (included in short-term deposits and cash)

This is based on the September 2015 reported balance. The balance is assumed to move in line with forecast fluctuations in the value of derivative assets to March 2016 (OC).

A4.2.3 Statutory assets

Calculated to be the minimum required statutory assets using the prescribed formula of 2.5 per cent. of total liabilities less short-term deposits, which is required to be held as cash, and an additional 5.0 per cent. held as liquid assets (OC).

A4.2.4 Fair value derivative asset (included in derivatives and other assets)

This is based on the September 2015 reported balance and is forecast to fluctuate in line with the forecast movements in the value of the derivative assets, based on detailed modelling per swap instrument. See Annexure A5.6 for further details (OC).

The forecast 31 March 2016 statement of financial position includes a projected settlement of financial derivative assets of value ZAR450 million and settlement of a collateral cash liability of equal value which will only occur under circumstances where the Restructuring is expected to become effective (T).

A4.2.5 Other assets (included in derivatives and other assets)

This is based on the September 2015 reported balance. The balance is assumed to stay constant to March 2016, which is in line with past trends (IC).

A4.2.6 Gross Advances (included in net advances)

- The gross advances balance is as forecast by the African Bank credit models (see Annexure A5.3.1).
- Included in the gross advances balance are the following items:
 - *Suspended interest provision* (ZAR1 438 million) – this is based on the September 2015 reported balance, increasing by ZAR61 million per month, in line with the observed recent trend (IC).
 - *Credit balances adjustment* (ZAR37 million) – this is based on the September 2015 reported balance and is assumed to stay constant to March 2016 (IC).
 - *Accrued interest* balance (ZAR514 million) – this is based on the September 2015 reported balance, decreasing by ZAR40 million per month, in line with the observed recent trend (IC).

A4.2.7 Deferred administration fees (included in net advances)

This is based on the September 2015 reported balance (ZAR16 million), reducing by ZAR5 million per month, in line with the observed recent trend (OC).

A4.2.8 Impairment provisions (included in net advances)

This is the net advances impairment forecast calculated by the African Bank credit models (see Annexure A5.3.6), adjusted (reduced) by the suspended interest provision to align the disclosure of this line item with the current disclosure per the annual financial statements (IC).

A4.2.9 Loans to affiliated companies

These loans represent intercompany balances receivable from ABIL and its subsidiaries. The loans are assumed to stay constant, based on the September 2015 reported balance. However, any balance remaining after the expected repayment has been fully impaired and projected on that basis (OC).

A loan of ZAR150 million (plus interest) is included in the forecast at 31 March 2016 relating to the funding of the cell captive arrangements recognised at 31 March 2016, which will be transferred to Good Bank (OC).

A4.2.10 Property and equipment

This is based on the September 2015 reported balance, reducing by ZAR6 million per month, in line with the observed recent trends to reflect net trending of capital expenditure and depreciation (IC).

A4.2.11 Intangible assets

This is based on the September 2015 reported balance, reducing by ZAR1 million per month, in line with the observed recent trend to reflect net trending of capital expenditure and depreciation (IC).

A4.2.12 Short-term funding

The latest March 2016 forecast financial information for total funding liabilities is based on detailed modelling per instrument which takes into consideration actual funding balances, contractually agreed interest

rates and Curatorship arrangements during this forecast financial information period. See Annexure A5.6 for further details.

The short term funding portion is based on the September 2015 reported balance with funding liabilities moving to short-term funding in line with the scheduled contractual maturities each month between October 2015 and March 2016. This is consistent with the approach that has been taken to prepare the African Bank FY15 financial statements (OC).

A4.2.13 Bonds and other long-term funding

This is based on the latest March 2016 forecast financial information of total funding liabilities as described under *Short-term funding* above (OC).

A4.2.14 Subordinated bonds

This is based on the latest March 2016 forecast financial information for Subordinated Bonds. The forecast financial information is based on detailed modelling per instrument which takes into consideration actual funding balances, contractually agreed interest rates and Curatorship arrangements during this forecast financial information period (OC).

A4.2.15 Loans from affiliated companies

This item comprises short-term funding deposits and intercompany liabilities with the holding company and fellow subsidiaries. Balances are as at September 2015 with short-term funding deposits forecast to increase as a result of capitalised interest at a rate in line with the African Bank call rate percentage, and intercompany loans not accruing interest (OC).

A4.2.16 Derivatives and other liabilities

This item comprises the following line items:

- VAT.
- Fair value liabilities – funding hedges.
- Insurance premium liability to the Good Bank Cell or Stangen.
- Advances with credit balances.
- Retail deposits.
- Other creditors.

Advances with credit balances, VAT and other creditors are assumed to remain static based on the September 2015 reported balances.

The insurance premium liability represents the expected premium payable in the month and Retail Deposits are assumed to rise marginally each month as a result of interest and in line with historic trends. Retail deposits are immaterial in aggregate at c.ZAR100 million as at September 2015.

Fair value derivative liabilities are based on the September 2015 reported balance and are forecast to fluctuate in line with the forecast movements in the value of the derivative assets, based on detailed modelling per swap instrument. See Annexure A5.6 for further details (OC).

A4.2.17 Reserves and accumulated losses

This is based on the September 2015 reported numbers, changing with the forecast profit/loss in the income statement (OC).

A4.3 STATEMENT OF PROFIT OR LOSS ASSUMPTIONS

A4.3.1 Interest income on advances

As forecast by the African Bank credit models (see Annexure A5.3.4), but adjusted down by suspended interest to align with historical reporting. The suspended interest adjustment is based on the September 2015 reported numbers, reduced by ZAR5 million per month in line with current trends (OC).

Forecasts reflect African Bank's updated methodology regarding the calculation of the suspended interest adjustment, as applied in the financial results to 30 September 2015.

A4.3.2 Non-interest income

As forecast by the African Bank credit models (see Annexure A5.3.4), comprising the following line items (IC):

- **Origination fees** – amortised income of upfront origination fees.
- **Monthly fees** – comprising amortised monthly fee income as well as monthly card fee income.
- **Card transaction income** – the net card transaction income (income less costs) grossed up for the cost element to provide a gross income number (the cost component is disclosed as part of operating costs).
- **Commission income and binder fees** received by African Bank from the Good Bank Cell or Stangen.

The total of non-interest income is adjusted down by fee suspension, which is based on September 2015 reported numbers and kept flat per month in line with past trends (OC).

A4.3.3 Credit impairment charge

As forecast by the African Bank credit models (see Annexure A5.3.6), adjusted (downwards) for the suspension of interest and suspension of fees (mentioned above under "*Interest income on advances*" and "*Non-interest income*"), which is in line with the disclosure in the annual financial statements (IC).

A4.3.4 Other interest income

Calculated as the monthly average of the African Bank short-term deposits and cash, multiplied by a blended rate taking into account the lower rate of interest received on the foreign cash (per Other Income assumptions in Annexure A5.5), adjusted by actual number of days per month (OC).

A4.3.5 Interest expense

The interest expense is based on detailed modelling per instrument which takes into consideration actual funding balances, contractually agreed interest rates, forecast changes in exchange rates and Curatorship arrangements during this forecast financial information period. The result of this modelling is an average rate of funding of 9.43 per cent. (including the cost of hedging to the extent swaps have been entered into, but not where the risk is economically hedged by holding foreign cash – see Annexure A5.6.8), which is applied to the average closing liabilities per month to determine the interest expense (OC).

The forecast to 31 March 2016 also includes foreign exchange losses of ZAR308 million arising as a result of assuming a ZAR2 depreciation against the USD and CHF prior to the Transaction Effective Date. See Annexure A5.6.4 for further details.

A4.3.6 Operating costs

Based on detailed operating cost projections, using current run rates (IC).

A4.3.7 Indirect taxation: VAT

Due to the fact that African Bank has both vatable, as well as non-vatable income, it is subject to s17 of the Value-Added Tax Act No. 89 of 1991, which requires it to apply a turnover based methodology to apportion its input tax between what is allowed and what is disallowed. For purposes of the forecast financial information it has been assumed that its apportionment ratio will equal the current African Bank rate of 31.58 per cent. The disallowed VAT ratio (68.42 per cent.) has been applied to the vatable portion of the forecast operating expenses to calculate the income statement impact of VAT input disallowed. In addition to this, the number is further adjusted by the impact specific VAT rulings where applicable (OC).

A4.3.8 Taxation

Assumed to be zero as African Bank is not expected to generate sufficient profits to fully utilise its accumulated loss (OC).

Good Bank forecast financial information

The forecast financial information for Good Bank as at 1 April 2016 and for the periods ending 30 September 2016, 2017 and 2018 are set out on the following pages. The directors of Good Bank are responsible for the forecast information, including the assumptions on which it is based, and for the financial information from which it has been prepared.

The forecast financial information was prepared using accounting policies that comply with IFRS, and are consistent with those applied in African Bank's 30 September 2015 audited financial statements and which are expected to be consistent with those to be implemented by Good Bank after the Restructuring.

The forecast financial information was prepared on a basis comparable with the historical financial information of African Bank, taking into consideration the effects of the Restructuring, i.e. the separation of the Good Bank, the restructuring of the debt through the issue of New Debt Instruments, the ZAR10 billion equity contribution by the Consortium and the implementation of the service level agreement between Good Bank and Residual Bank.

The assumptions made and applied in the preparation of the Good Bank forecast financial information, are considered to be the principal assumptions. Without prejudice to the foregoing sentence, these assumptions are not an exhaustive list, nor are they intended to be. The assumptions are significant to the forecast financial information as being key factors upon which the financial results of Good Bank will depend.

Certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the preparation of the forecast financial information. Accordingly, the actual results achieved for the forecast periods may differ from those forecast.

Categorisation of assumptions

Assumptions have been categorised, as appropriate, as follows and presented in brackets where relevant:

- IC – Inside management's control, being those assumptions in respect of which management can exercise some level of influence.
- OC – Outside management's control, being those assumptions that are exclusively outside of management's influence.
- T – Assumptions driven by the Restructuring, and therefore outside management's influence.

Assumptions are based on management best estimates relating to future events which management expects to take place and the actions management expects to take.

ABRIDGED STATEMENT OF FINANCIAL POSITION FOR GOOD BANK

	Forecast	Forecast as at		
	1 April 2016	September 2016	September 2017	September 2018
	<i>ZAR million</i>			
Assets				
Short-term deposits and cash	15 681	15 586	14 832	10 459
Foreign Cash	3 744	7 193	12 055	14 489
Collateral cash	4 993	3 807	1 032	686
Statutory Assets	1 517	1 333	990	1 269
Fair value derivative asset	5 697	3 807	1 032	686
Other assets	242	241	126	127
New HoldCo loan	152	160	177	196
Net advances	20 176	19 433	18 389	18 745
Gross advances *	29 207	28 828	27 659	27 743
Advances fair value uplift *	93	69	33	13
Deferred administration fees *	(19)	(19)	(19)	(19)
Impairment provisions *	(9 105)	(9 445)	(9 284)	(8 992)
Net deferred tax asset	—	20	110	85
Property and equipment	505	528	553	550
Intangible assets	131	123	106	89
Goodwill	1 724	—	—	—
Total assets	54 562	52 231	49 402	47 381
Liabilities and equity				
Collateral liabilities	4 993	3 807	1 032	686
Other liabilities	1 502	1 517	1 551	1 587
Fair value derivative liability	32	6	1	—
Treasury funding – existing	36 588	37 354	36 873	31 288
Treasury funding – roll forward	—	—	—	3 067
Net deferred tax liability	103	—	—	—
Subordinated bonds – principal	1 485	1 485	1 485	1 485
Subordinated bonds – accrued interest	74	52	52	53
Total liabilities	44 777	44 221	40 994	38 166
Share Capital	10 000	10 000	10 000	10 000
Reserves and accumulated losses	(215)	(1 990)	(1 592)	(785)
Total equity (capital and reserves)	9 785	8 010	8 408	9 215
Total liabilities and equity	54 562	52 231	49 402	47 381

Note:

- * The split of net advances is an additional disclosure not required under IFRS. The split is based on the carrying values of Good Book in African Bank (before the fair value accounting of the Good Book at the Transaction Effective Date) and is shown to allow better comparability.

ABRIDGED STATEMENT OF PROFIT OR LOSS FOR GOOD BANK
for periods ending 30 September

	Forecast 6 months FY16	Forecast 12 months FY17	Forecast 12 months FY18
	<i>ZAR million</i>		
Interest income on advances.....	2 095	5 292	5 764
Non-interest income	409	1 243	1 715
Income from operations	2 504	6 535	7 479
Credit impairment charge	(161)	(1 342)	(2 130)
Claims Recovered from Stangen/cell captive	12	117	227
Risk-adjusted income	2 355	5 310	5 576
Amortisation of intangibles and impairment of goodwill	(1 732)	(17)	(17)
Other interest income	573	1 200	1 221
Interest expense	(1 607)	(3 519)	(3 218)
Operating costs	(1 148)	(2 314)	(2 301)
Foreign exchange losses	(184)	-	(34)
Indirect taxation: VAT	(269)	(109)	(108)
Operating (loss)/profit before taxation	(2 012)	551	1 119
Deferred tax.....	123	90	(25)
Direct taxation: current tax	(101)	(243)	(287)
(Loss)/profit for the period/year	(1 990)	398	807

The disclosure above of components of risk-adjusted income, reflects the IFRS disclosure. This recognition aligns the earnings on the advances book acquired at fair value on the Transaction Effective Date, with the Effective Interest Rate earned.

The disclosure below shows the risk-adjusted income and unwind of the advances fair value adjustment before the statement of profit or loss disclosure is adjusted to bring it in line with IFRS requirements in relation to the Effective Interest Rate. While this additional disclosure is not in terms of IFRS, it allows for comparison with historically reported earnings.

	Forecast 6 months FY16	Forecast 12 months FY17	Forecast 12 months FY18
	<i>ZAR million</i>		
Interest income on advances.....	3 569	6 797	6 276
Non-interest income	1 104	2 365	2 464
Income from operations	4 673	9 162	8 740
Credit impairment charge	(2 482)	(4 171)	(3 517)
Claims Recovered from Stangen/cell captive	188	356	373
Risk-adjusted income	2 379	5 347	5 596
Unwind of FV adjustment	(24)	(37)	(20)
Total risk-adjusted income	2 355	5 310	5 576

ABRIDGED STATEMENT OF CASH FLOWS FOR GOOD BANK
for periods ending 30 September

	Forecast 6 months 2016	Forecast 12 months 2017	Forecast 12 months 2018
		<i>ZAR million</i>	
Cash generated from operations:			
Cash received from lending activities and cash reserves	6 433	13 137	10 308
Cash paid to clients, funders, employees and agents.....	(1 164)	(2 206)	(2 281)
Increase in gross advances.....	(1 574)	(2 807)	(3 520)
Direct taxation paid	(101)	(243)	(287)
Decrease/(increase) in statutory assets.....	184	343	(279)
Cash inflow from operating activities	3 778	8 224	3 941
Cash outflow from investing activities			
Acquisition of property and equipment (to maintain)	(55)	(110)	(110)
Cash outflow from investing activities	(55)	(110)	(110)
Cash (outflow) from financing activities			
Cash (outflow) from funding activities	(369)	(4 006)	(5 770)
Cash (outflow) from financing activities	(369)	(4 006)	(5 770)
Increase/(decrease) in cash and cash equivalents.....	3 354	4 108	(1 939)
Cash and cash equivalents at beginning of period/year	19 425	22 779	26 887
Cash and cash equivalents at end of period/year	22 779	26 887	24 948

A5.1 FORMATION OF GOOD BANK BALANCE SHEET ASSUMPTIONS

	A	B	C	D	E	F	G
	African Bank (before the African Bank Restructuring)	Adjustments to arrive at Good Bank Business	Good Bank Business before the African Bank Restructuring	Exchange Offers	VAT applicable to acquired assets	Equity injection	Good Bank Balance Sheet
	ZAR million						
ASSETS							
Short-term deposits and cash (including collateral cash).....	20 769	(7 996)	12 773	1 645		10 000	24 418
Statutory assets.....	3 162		3 162	(1 645)			1 517
Derivatives and other assets	5 823		5 823		116		5 939
Net advances	24 936	(4 853)	20 083	93			20 176
Loans to affiliated companies.....	152		152				152
Property and equipment ..	400		400	105			505
Intangible assets	68		68	63			131
Goodwill.....				2 055	(331)		1 724
Total assets.....	55 310						54 562
LIABILITIES AND EQUITY							
Collateral liabilities	4 993		4 993				4 993
Other liabilities.....	1 049	(84)	965				965
Fair value derivatives liabilities.....	32		32				32
Bonds and other long-term funding	52 179	(52 179)		36 588			36 588
Subordinated bonds, debentures and loans.....	5 306	(5 306)		1 559			1 559
Loans from affiliated companies.....	671	(134)	537				537
Deferred tax liability.....				103			103
Total liabilities	64 230						44 777
Ordinary share capital and premium.....	14 404	(14 404)				10 000	10 000
Reserves and accumulated losses	(23 324)	23 324			(215)		(215)
Total equity (capital and reserves)	(8 920)						9 785
Total liabilities and equity	55 310						54 562

The assumptions relevant to the formation of the Good Bank Balance Sheet (column G in the table above) are based on the Restructuring:

- The statement of financial position of African Bank will be separated on 1 April 2016, the assumed Transaction Effective Date, between Good Bank and Residual Bank. Those assets and liabilities that will not be transferred to Good Bank on the Transaction Effective Date are deducted (column B in the table above) from the forecast African Bank statement of financial position (column A) (T).
- The following assets are assumed to be purchased at fair value by Good Bank in terms of the Sale of Business Agreement (T):
 - Good Book – net advances, being loans and credit cards selected on the basis described below;
 - All derivative positions and associated collateral cash holdings;
 - All property and equipment;
 - All other trading assets, such as sundry debtors and prepayments;
 - Software intangibles;
 - The loans to affiliated companies, being the loan advanced to New HoldCo to fund the capitalisation of the Good Bank cell via InsureCo; and
 - The Top-Up Cash Amount.
- The liabilities to be assumed in consideration for these assets, in terms of the Restructuring, are (T unless otherwise stated):
 - 80 per cent. of the principal amount for Senior Funders;
 - ZAR1.485 billion of principal subordinated bond liabilities, plus accrued interest for the four months from 1 December 2015;
 - Sundry creditors and retail deposits;
 - All derivative positions and associated collateral liabilities;
 - Management's best estimate of the the likely settlement amount for certain potential liabilities which as at the date of this document remain under negotiation; and
 - It is assumed that the face value of the liabilities reflect their fair value at the Transaction Effective Date (OC).
- In accordance with IFRS 3 the assets and liabilities which transfer to Good Bank will do so at their fair value (OC). Adjustments are made to net advances, property plant and equipment and intangible assets in column D of the above table. Assumptions in this regard are described below (T).
- A goodwill amount of ZAR1.7 billion arises (reflected in column G), indicating the difference between the fair value of the assets acquired and the liabilities assumed in return (T).
 - Actual goodwill recognised after the Transaction Effective Date will depend on the actual fair value adjustments to assets and liabilities arising at the actual Transaction Effective Date.
 - Thereafter goodwill will have to be assessed for impairment on an annual basis in terms of IFRS, after which goodwill may have to be impaired if necessary. Any impairment will be subject to IFRS requirements on testing goodwill at the time of actual reporting.

- A provisional assessment of the forecast carrying value of goodwill in terms of the forecast assumptions indicates that goodwill may have to be impaired after the Transaction Effective Date. As a result, it has been assumed in the forecasts that goodwill is impaired during the first reporting period. It should be noted that this assessment will have to be reconsidered after the actual Transaction Effective Date.
- VAT arising as a result of the sale of the Good Bank Business has been forecast. In terms of legislation, VAT will become due on the property and equipment and intangible assets being transferred and goodwill. The recoverable portion of this VAT charge is assumed to be broadly in line with the apportionment split disclosed in Annexure A5.8.11. The irrecoverable portion is recorded in reserves at Transaction Effective Date and is recycled as a charge through the income statement in year one. This is reflected in column E of the above table (T). A tax ruling request to alleviate this VAT consequence has been filed with the revenue authorities, but the outcome is not yet known.
- The Consortium will provide ZAR10 billion of share capital to New HoldCo, which will use this equity capital to capitalise Good Bank. This is reflected in column F of the above table. (T).
- The balances of cash and goodwill within the Good Bank Balance Sheet have been forecast such that, by 1 April 2018, the Good Bank CET 1 ratio will be approximately 28 per cent. (CET Target), based on the forecast financial information and based on the values of assets and liabilities as described herein (T).
- A Senior Cash Payment and Subordinated Cash Payment will be made to creditors as part of the transaction on the Transaction Effective Date of ZAR4.9 billion, representing 10 per cent. of the principal amount plus accrued interest for Senior Funders and ZAR165 million plus accrued interest for Subordinated Funders. This payment and the Coupon Service Payment will be made by Residual Bank and is therefore not reflected in the table above (T).

Cell captive arrangement

African Bank's historic sister company Stangen will not form part of the New HoldCo Group. Instead Good Bank management has decided to adopt an alternative strategy with regards to the operation of the insurance business within the New HoldCo Group. Management has decided that the insurance business will be operated through a cell captive insurance arrangement, set up in collaboration with Guardrisk. A strategy has been developed in conjunction with Guardrisk. The principal assumptions relating to the insurance arrangements are set out below.

The financial consequences of the introduction of the cell captive arrangements, as it impacts Good Bank, are as follows:

- The Good Bank Cell is set up with one or more shares owned by InsureCo. The Good Bank Cell is assumed to start business on 1 February 2016 (IC).
- In relation to premium rates, insurance commissions received and insurance claims received in Good Bank: These were previously contributed by Stangen only, and will now still be contributed by Stangen for those policies in force with Stangen as at 31 January 2016 and which remain with Stangen after this time. For those policies written from 1 February 2016 by the Good Bank Cell, commercial terms will be similar to those with Stangen (IC).
- In relation to insurance related costs and binder fees received from both Stangen and the Good Bank Cell: These, in total, will remain on the same commercial terms as were previously in existence with Stangen (IC).

- In relation to profits earned by Stangen (previously assumed to be used by New HoldCo to further capitalise Good Bank): Profits in Stangen will no longer be available to the New HoldCo Group. From the Transaction Effective Date, profits earned by the Good Bank Cell will be available to New HoldCo but are not assumed to be used to further capitalise Good Bank (IC).

All initial capital requirements and the initial technical provisions of the Good Bank Cell will be funded through a loan from Good Bank to New HoldCo, which via InsureCo, will own one or more shares in the Good Bank Cell. The loan from Good Bank will accrue interest at JIBAR plus 320 basis points. The initial loan at 1 February 2016 is approximately ZAR150 million. Any increases in capital requirements over the Base Case Period are assumed to be funded by Guardrisk or the Good Bank Cell itself through retained profits (IC).

A5.2 FAIR VALUE ASSUMPTIONS

A fair value assessment will need to be performed by Good Bank after the Transaction Effective Date in order to determine the fair values of the assets and liabilities within Good Bank as at that date, in line with IFRS acquisition accounting rules. Fair value adjustments included in the forecasts are based on provisional assessments and current management best estimates. As a result, it is possible that the assessment after the Transaction Effective Date may result in different values to those which are estimated and assumed within the Good Bank Balance Sheet (OC).

A5.2.1 Net advances

- The net advances line historically is composed of gross advances measured at amortised cost, less recognised impairments. At Transaction Effective Date, the fair value of this book will need to be determined.
- For purposes of forecasting the transaction and forming the most accurate projection of the Good Bank Balance Sheet, the Bank has estimated the fair value of the Good Book as ZAR20.2 billion, as at the assumed Transaction Effective Date. The estimate of this fair value was calculated as follows (OC):
 - Building run-off triangles (i.e. using historical cash flows to project future cash flows to maturity across the portfolio, segmented for example by CD Status or term) which include the following components:
 - The loan and card cash flows from the Good Book;
 - The pay-outs assume there will be no insurance grace period, versus the previous allowed grace periods of up to 12 months;
 - Insurance premiums collected on behalf of the Good Bank Cell or Stangen (modelled as cash flow out), allowing for commission to Good Bank on the premium collected;
 - Insurance claim pay-outs and premiums are reflective of the new lapsing policy – see A5.3.1 for further details on this; and
 - The cost of collections.
 - The projections of the above components are heavily influenced by the performance observed over the previous 12 months. The cash flows are discounted at 12 per cent., based on an assumed average long-term debt to equity ratio of 70:30, with 9 per cent. before tax cost of debt and a ROE requirement of 25 per cent. (IC).

- The forecast difference between the calculated fair value of the net advances and the book value as of Transaction Effective Date (difference of ZAR93 million) has been modelled separately to the book value. This value differential is modelled in the net advances line in the Good Bank Balance Sheet as at Transaction Effective Date, and amortised to the income statement using a profile which reflects the amortisation of the fair value of the book (IC).

A5.2.2 Property and equipment

- On the Transaction Effective Date the full property and equipment balance will be measured at fair value. For the purposes of forming the most accurate forecast of the Good Bank Balance Sheet the value of the property to be transferred to Good Bank has been increased by ZAR105 million. This is based on an independent valuation carried out on the property for purposes of reporting in the statutory accounts for the year ended September 2015 (OC).
- Going-forward, property and equipment will be measured at cost less accumulated depreciation and impairments, although the cost base of the property and equipment in the Good Bank projections will be increased to the fair value as at the Transaction Effective Date. It is assumed that property will amortise over 50 years (IC).
- In accordance with IFRS, a deferred tax liability relating to the fair value of the property has been created in the Good Bank Balance Sheet. This has been forecast to release over 50 years in line with the property amortisation (OC).

A5.2.3 Intangible assets

- African Bank performed a pre-acquisition fair value exercise to identify and value intangible assets to be transferred to Good Bank from African Bank (OC). This exercise will be updated after the Transaction Effective Date.
- This pre-acquisition exercise identified an intangible asset with a value of ZAR63 million relating to the value of the African Bank brand, which is being transferred as part of the Restructuring. It will be necessary for Good Bank to review this intangible asset for impairment at each reporting period. It is assumed (in line with expectations of the Good Bank policy) that this brand will be used indefinitely and therefore it is treated as an indefinite life asset with no amortisation (OC).
- A deferred tax liability has been raised within the Good Bank Balance Sheet as a result of the creation of this brand intangible asset (OC).
- Other intangible assets currently listed within the African Bank balance sheet consist of both purchased and internally developed software. Internally developed software is measured at capitalised cost less accumulated amortisation and any accumulated impairment. Purchased software is measured at cost less accumulated amortisation and any accumulated impairment. The pre-acquisition fair value exercise referenced above concluded that no change to the book value is required to reflect the fair value of these assets within the Good Bank Balance Sheet (IC). The fair value exercise will be updated post the Transaction Effective Date.

A5.2.4 Loans from previously affiliated companies

- Loans from previously affiliated companies are measured at amortised cost, under the same assumptions as applied to the New Debt Instruments. The fair value of these items will have to be determined as at Transaction Effective Date, and recognised at fair value in Good Bank (OC).

A5.2.5 Liabilities

- Subordinated Funders have participated in the Subordinated Exchange Offer and have elected settlement in New Subordinated Debt Instruments only, i.e. New Subordinated Debt Instruments equal to ZAR1.485 billion are to be issued by the Good Bank.
- It is assumed that on Transaction Effective Date, the fair value of the New Debt Instruments will equate to the nominal value i.e. 80 per cent. of the value of Existing Senior Debt Instruments and ZAR1.485 billion, for new Subordinated Debt Instruments. Should the actual fair value, as assessed after the Transaction Effective Date be different, it will impact the amount of goodwill recognised in the Good Bank Balance Sheet (OC). Should the assumed credit spread used in the valuation of Senior Debt change by 35 basis points from that previously observed before Curatorship, the fair value will change inversely by approximately ZAR400 million.
- In line with the treatment of wholesale deposits, it is assumed that the fair value of retail deposits will equate to their nominal value. Retail deposits are forecast to total c. ZAR100 million at the Transaction Effective Date. As above, should the fair value, as assessed after the Transaction Effective Date be different, it will impact the amount of goodwill recognised in the Good Bank Balance Sheet (OC).
- In terms of the Restructuring, it is assumed that interest on the New Subordinated Debt Instruments will accrue from 1 December 2015 and be settled as part of the first scheduled coupon payment on the New Subordinated Debt Instruments (T).

A5.3 ASSUMPTIONS TO PROJECT THE PERFORMANCE OF THE GOOD BOOK

A5.3.1 Credit Models

- The Bank models its credit data projections using historical experience and new sales assumptions (IC).
- A number of variables are forecast from origination to completion of the loan, including (IC):
 - Interest gross and net of *in-duplum* requirements i.e. once an account is in default, it is required that all future interest and fees which accrue on that account, whilst it remains in default, cannot exceed the balance at the point the account enters default;
 - The number of active accounts;
 - Outstanding balances;
 - Impairment figures;
 - Funding requirements;
 - Monthly fees;
 - Expenses, based on an activity based costing model; and
 - Amounts in relation to insurance policies – including premium rates, insurance commissions received and insurance claims received.
- The relationship between these elements and the expected default rate in the first twelve months from origination of a loan, is based on observed data between the first half of 2008 and the second half of 2014 inclusive. As such an implicit assumption is made that a group of accounts with similar risk behaviour in the first twelve months will behave similarly thereafter (OC).

- Projections are differentiated between groups of accounts by risk level only, i.e. the expected default rate in the first 12 months. The abovementioned elements can therefore be forecast for each defined default rate (IC).
- For each risk level, a series of curves is fitted based on historic experience (IC). These curves include:
 - Attrition or settlements (OC);
 - Write-offs (OC);
 - Loss amounts (OC);
 - Balance rundown (OC);
 - Recoveries (OC);
 - Insurance lapses (OC);
 - Insurance pay-outs; and
 - *In-duplum* accruals (OC).
- The curves were extrapolated where the term of the loans exceeded the historic data period (IC).
- Results were back tested against past experience, including prior income statements. The accuracy of the impairment forecasts was validated against actual impairment data for the period from October 2014 to September 2015 and, as such, an adjustment is made to the forecast to update for changes in economic conditions since the credit models were originally developed (IC).
- African Bank has updated the premium advancement arrangement whereby the insurance premiums were historically paid by African Bank on behalf of defaulting loan customers up to a maximum of Contractual Delinquency 6 (CD6) and Recency 6. The updated approach varies depending on borrower characteristics but will result in a shorter average premium advancement period and is forecast to have a positive effect on Good Bank profitability (IC).

A5.3.2 Methodology taken to determine Good Book vs Residual Book

- The Selected Loans and New Loans, have been identified from the underlying loan book records, and included in the Good Book as follows (T):
 - All New Loans originated during the Interim Period, which reflect the new lending criteria introduced on the Curatorship Date, have been assigned to the Good Bank;
 - Any loans (including limit increases) originated whereby the credit score at origination met the lending requirements per the credit policy initiated post Curatorship and were not affected by credit amnesty;
 - All accounts with a written off or rehabilitation status at Curatorship Date were assigned to Residual Bank, irrespective of whether other criteria were met;
 - Loans to Ellerine Furnishers' customers (i.e. furniture loans) and those customers who repay on a cash basis have been excluded;
 - Loans originated in African Bank branded kiosks in the Ellerines distribution channel have been excluded;

- Since Residual Bank will not have a banking licence after the Transaction Effective Date, all active credit card accounts, as at the Transaction Effective Date, are included in the Good Book, even though they may not meet the revised borrower criteria in terms of the new more conservative lending model; and
- The balances of unallocated loans, not identified above, were assigned to the Residual Book.

A5.3.3 Changes to the credit forecasts to accommodate the New NCR Regulations

- For the purpose of the forecast financial information it is assumed that insurance and NCR rate caps become effective on 1 May 2016, which is in line with recent announcements that the rate caps will become effective from 6 May 2016. It is assumed that the credit methodology will not change again after this point (OC).
- The requirements of the New NCR Regulations will be addressed by reducing the size and term of loans (see details below). In addition, there will be improved targeting of lower risk business and a reduced targeted return on equity. As outlined below, after implementing the necessary changes to accommodate the New NCR Regulations, the average loan size, including the credit card book, is forecast to reduce, from the levels in FY15, by 25 per cent. (from ZAR19.2 thousand to ZAR14.4 thousand) and the average loan term from 43 to 42 months (IC).
- The assumed number of applications and the assumed risk distribution of applicants are unaffected by the New NCR Regulations (OC).
- Good Bank will offer all new credit card customers a standard card product to achieve a more uniform fee structure (IC).

A5.3.4. Income

Interest rates have been assumed to rise as a result of increasing repo rates. Repo rates have been assumed to increase by 25bps in January 2016, 25bps in July 2016 and a further 25bps in January 2017; increasing from 6.00 per cent. to 6.75 per cent. over the Base Case Period. Repo rate increases have been assumed to occur at potential dates of the Monetary Policy Committee of the SARB (following 2015 dates), which are assumed to occur on the last working day of the month. The SARB announced an increase in repo rates of 25bps to 6.25 per cent. in November 2015, whereas the forecast assumes this increase to occur in January 2016. This variance of two months is considered to be immaterial for forecasting purposes and to reflect a timing difference in repo rate increases as opposed to an adjustment to the shape of the overall curve. No further actual increases in repo rates have been factored into the forecast. Refer to Annexure A5.6.6 for further commentary on assumed interest rates (OC).

It is assumed that by the end of the Base Case Period:

- For loans (IC):
 - the average interest rate will decrease by 13 per cent. relative to the average rate in place in African Bank in FY15;
 - the average monthly fee will increase by 20 per cent. relative to the average fee in place in African Bank in FY15;
 - the average initiation fee will increase by 5 per cent. relative to the average fee in place in African Bank in FY15;
 - the average loan size will decrease by 34 per cent. relative to the average loan size in African Bank in FY15; and

- the average term will decrease by 2 per cent. relative to the average term in African Bank in FY15.
- For credit cards (IC):
 - the average interest rate will increase by 2.5 per cent. relative to the average rate in place in African Bank in FY15;
 - the average monthly fee will increase by 20 per cent. relative to the average fee in place in African Bank in FY15;
 - the average initiation fee will stay constant at the level in place in African Bank in FY15; and
 - the average credit limit will stay constant at the level in place in African Bank in FY15.

Commission earned on insurance business is included in non-interest income. It has been assumed that commission will be earned at current rates in place, being 22.5 per cent. on group life policies and 7.5 per cent. on individual life policies. Expected regulatory changes may limit the commission earned and the effective date of implementation is uncertain.

A5.3.5 Sales

The following sales figures are based upon African Bank's historic performance, Good Bank management team's expectation of future economic conditions, and the anticipated impact of the New NCR Regulations. It is assumed that, following the New NCR Regulations, neither the overall level of applications nor the risk and affordability profile of the applicants will be affected. However, after implementing the updates to the credit methodology since Curatorship, the forecast Good Bank sales figures reduce from the level in African Bank prior to Curatorship as outlined in the following table (IC):

Rand value disbursed (ZAR million) forecast from FY16:

	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Total</u>
													17
FY14.....	1 959	2 011	2 207	1 769	1 430	1 493	1 666	1 563	1 287	1 026	758	751	920
FY15.....	705	698	720	560	495	594	610	654	750	795	751	904	8 236
FY16.....	852	887	918	744	759	813	869	706	717	678	744	757	9 444
FY17.....	676	703	727	590	604	656	701	763	775	733	804	818	8 550
FY18.....	757	787	814	660	677	735	785	854	868	820	900	916	9 573

A5.3.6 Provisioning policy (IC)

African Bank has recently reviewed and updated the methodology to estimate provisions to move away from provisions based on probabilities of default, and losses given default, towards a methodology that management believes provides an improved estimate based upon forecast cash flows. Additional adjustments have been made as part of this, to ensure that this provides a more prudent approach, for example basing provisions purely on the customer's contractual default ('CD') status without allowing for 'curing' within CD groups and removing the minimum threshold above which a shortfall in payments will lead a customer to move between CD groups. This approach has been implemented by African Bank prior to the end of the 2015 financial year and this practice will continue in Good Bank going forward. In due course, this will also bring Good Bank closer to the requirements of IFRS 9. Provisions will be quantified on an overall portfolio level based on the delinquency state of the loans within the segments identified below.

Segment	Criteria	Methodology
Unimpaired Portfolio	Contractual CD = 0, i.e. contractual up to date (contractual arrears = 0)	IBNR: Emergence factor x loss given 1 missed instalment
Impaired Portfolio	Contractual CD \geq 1, i.e. missed at least one or a portion of one contractual instalment	Expected cash flows modelled using specific payment behaviour segmentation.

The Good Bank projections assume that Good Bank will fully provide against loans where no payment has been received for six consecutive months, which is also consistent with the 30 September 2015 treatment in African Bank.

A5.3.6.1 Definitions and descriptions relating to the table above

- Impairment Event
 - The impairment event is the first point in the life of a loan where there is objective evidence that the account has become impaired.
 - The impairment event used in these calculations is the point where arrears are identified on the account. This impairment event has been chosen because a high proportion of these accounts roll through to default.
- Emergence Factor (EF)

The Emergence Factor is a factor applied to the CD0 bucket (i.e. those proportion of loans that have not missed a payment or portion thereof) to represent the probability that an impairment event will occur during the emergence period of 90 days. This emergence period is consistent with the African Bank audited position for the 30 September 2015 financial year end and has been extended from the emergence period of 30 days used previously. Monthly estimates used consist of the balance and point in time weighted average of the emergence rate for the 12 most recently matured months.

A5.3.6.2 Cash flow valuation methodology

The following principles apply to the cash flow valuation models described above and are in line with the approach which has been adopted by African Bank for FY15 financial statements:

- Cash flow methodology is used to forecast the expected future collections (as a percentage of balance) of loans that migrate from one contractual CD status to another on a monthly basis. This is based on the observed historic collections that were registered against similar populations in the past. The expected cash flows are discounted at the original effective interest rate.
- Insurance premiums paid over to the Good Bank Cell or Stangen are not treated as cash flows out.
- Insurance claims post-default are treated as cash flows in, provided that the claim incident date was prior to default or within a 1 month grace period after default date. The first default date per account is used, i.e. the first default date persists even if the account cures at a later date.
- The forecast window is set at 60 months.
- The forecast cash-flows are recalculated quarterly (one month prior to financial quarter ends) and used to re-quantify the required balance sheet provisions on all the underlying portfolios.

- Cash flow forecasts are back tested annually.
- A standard run-off triangle methodology is used to quantify (and forecast) the month-on-month growth in cumulative collections. These ratios are subsequently forecasted and multiplied with the relevant segment instalments (or balance), in order to generate expected monthly cash values.
- The new methodology provides more weighting to the most recent 12 months of performance which in this instance provides a more conservative coverage.

The discounted cash flows of the Card portfolios are now limited to the balance at observation i.e. no negative Loss Curves are permitted as a result of factors such as future drawdowns. The cash flows are limited to future interest and fees less payments, resulting in a more prudent approach.

A5.3.6.3 Written-off book value

The written-off book consists of assets that are moved off-balance sheet. No future valuation of written-off loans is assumed in the provisioning policies of Good Bank. The current policy is that there is no rehabilitation of loans that have been written-off back to the balance sheet.

A5.4 OPERATING EXPENSES ASSUMPTIONS

The operating expenses for Good Bank during the Base Case Period have been estimated as a function of a forecast development of the current African Bank cost base. The impact of additional cost saving initiatives is also reflected within the projections for Good Bank (IC).

A5.4.1 Forecast African Bank operating cost base (IC)

- Direct collection costs are forecast based on the size and CD status of the loan book included within the Collections Model.
- The direct collection costs are assumed to comprise the following elements:
 - Electronic payments: Electronic payments “debit order strikes” are a cash collection tool used across all CD Status categories. The number of electronic “debit order strikes” and unit cost thereof are extrapolated to determine the total forecast cost of electronic payments.
 - In order to project the number of strikes during the Base Case Period, an average number of account strikes per loan was calculated for the loan categories (CD0, CD1-4, CD4+) based on African Bank data from August 2014 to March 2015. This was assumed to stay constant during the Base Case Period and was applied to the forecast development of the loan book obtained from the Collection Model to determine the forecast number of strikes.
 - In order to project the unit costs during the Base Case Period, an average unit cost per strike was calculated based on African Bank data from August 2014 to March 2015. It was assumed that inflation would be applied to these costs on a monthly basis, at an annual rate of FY16: 5.90 per cent., FY17: 5.55 per cent. and FY18: 5.80 per cent.
 - Call centre: The collections call centre is the tool for soft collections. Loans in the CD1-4 category are assumed to be a proxy for the loans in the collections call centre. A unit cost per loan has been calculated for the collections call centre based on African Bank data for call centre operating expenses and number of loans within CD1-4 between August 2014 and March 2015. This unit cost is assumed to grow in line with the above inflation rates and is applied to the CD1-4 loan book as forecast by the Collections Model.

- Legal Collections: Loans in categories CD4+ are assumed to be a proxy for the loans in this stage of the collections lifecycle. A unit cost per loan is calculated for legal collections based on African Bank data for legal collections operating expenses and number of loans in CD4+ between August 2014 and March 2015. This unit cost is then applied to the CD4+ loan book projections and inflation is applied to project the cost, as set out above where legal collection costs are contingent upon cash receipts, the projected costs are based on projected cash flows for loans in this category.
- Remaining costs: The operating expenses for all other cost items has been forecast as at the Transaction Effective Date based upon African Bank's management budgets which reflect the impact of the historic cost reduction initiatives from FY15 relating to the right sizing of head office, lease renegotiations and branch closures amounting to ZAR256 million. It has been assumed that these cost items would increase during the Base Case Period in line with the above inflation rates.

A5.4.2 Forecast Residual Bank Recharge (included in non-interest income) (T)

- It is anticipated that Good Bank will assume responsibility for the servicing and collections of the Residual Book. The services are expected to include (but not be limited to) the following functions: collections, service call centre, payments, debtors' administration, risk and compliance, and support services.
- The Residual Bank recharge relates to the methodology through which Good Bank will recover the cost of collections from Residual Bank on commercial terms. To determine the fee structure Good Bank will charge the residual business, an exercise was undertaken to define the costs applicable to both the management of and the collecting of the portfolio.
- The amount of this recharge has been estimated on the following basis:
 - The fee structure that has been agreed between the parties consists of both a fixed and variable component:
 - The fixed cost component relates to servicing and administration costs, such as Customer Service, IT, Finance, Risk, Treasury and Cash flow, and back office management. An absorption based costing approach (i.e. identifying appropriate cost drivers and a unit cost per cost driver) was used to determine a fixed customer servicing cost, per customer per month. This cost will be charged based on all customers (unique ID's) that have an outstanding balance on their loan accounts at the end of each month.
 - The variable charge that will be levied by Good Bank is set as a percentage of the amount collected, split between soft collections and hard collections. This fee component ensures that the team in Good Bank responsible for managing the collections on the residual portfolio is incentivised to collect as much as possible, as no part of this fee is a fixed component. The costs that this fee will be required to cover will include directly attributable collections costs such as: debit order payments, call centre and legal collection services including salaries, telephone, and other incidental costs that will be incurred in the collections of this portfolio.
 - The fee structure proposed varies depending on the delinquency of the portfolio and recognises the fact that as loans migrate into a higher delinquency status, the cost of collections increases.
 - Based on the forecast cash flows from the Residual Book, the forecast number of accounts on book on a monthly basis, and the fees set out above, it is forecast that the cost of collections to

be charged by Good Bank to Residual Bank will be ZAR339.2 million for the six months ending FY16, ZAR651.2 million in FY17 and ZAR505.4 million in FY18.

- The amount of this recharge has been allocated to non-interest income, while the related operating costs are included in operating costs.

A5.4.3 Additional Cost Saving Initiatives (IC)

ZAR256 million annual cost savings have already been identified and implemented in African Bank in 2015. These cost savings are reflected in the Good Bank operating expenses through the establishment of a lower base of costs projected into the Base Case Period. Further cost reduction initiatives assumed to be implemented in Good Bank have been identified in two phases, calculated as follows:

- Phase 1 – A further cost reduction of ZAR135 million has been assumed to be achieved by year three of the Base Case projection. The specific savings have not yet been finalised. This may include branch rationalisation as well as process improvement, which will result in delivering a more customer centric proposition to the market. The ZAR135 million is a management estimate based on the Base Case projection, however with potential alternative strategies being considered, it has not been finalised. ZAR8 million, ZAR43 million and ZAR84 million of savings are forecast in FY16, FY17 and FY18 respectively.
- Phase 2 – It will be necessary for Good Bank to retain additional resources in order to provide the loan collection services outlined above to Residual Bank. It has been assumed that as the Residual Book pays down, and the fee earned by Good Bank reduces, Good Bank will eliminate costs associated with the collection and management of the Residual Book at a rate equal to half the reduction in the fee earned. The reason for this is that not all the costs related to the collection of the Residual Book are variable in nature. The forecast cost saving from this phase is ZAR200 million (before tax) over the Base Case Period, with ZAR50 million and ZAR150 million of savings forecast in FY17 and FY18 respectively.

A5.5 OTHER INCOME

A5.5.1 Interest on deposits

- Monthly interest income is assumed to be earned on the closing cash balance and on near cash instruments (OC):
 - Based on the current interest rates available on call and three month deposits for ZAR cash and nine months for USD funding, and the assumed investment profile for Good Bank, 6.76 per cent., 1.50 per cent. and 0.00 per cent. interest has been assumed to be earned on all ZAR, USD and CHF short-term deposits and cash respectively, as well as collateral cash as reflected on the balance sheet.
 - Statutory Assets are assumed to earn interest as follows:
 - 0 per cent. interest earned on minimum Cash Reserve requirements held with the SARB. This is calculated as 2.5 per cent. of total liabilities less short-term deposits which is required to be held as cash.
 - 6.76 per cent. interest earned on the 5.0 per cent. balance of statutory assets held as liquid assets and any additional assets held above the minimum requirements, as at the Transaction Effective Date.

- Initial interest rates applied to the ZAR cash balance, statutory assets and other near cash instruments are increased generally in line with repo rate assumptions, to 7.01 per cent. by the end of the projection period (OC).
- Interest income is apportioned monthly (IC).

A5.6 LIABILITIES ASSUMPTIONS

A5.6.1 Indicative average funding rates (OC)

The table below shows the indicative average funding rates, based on detailed analysis of the actual interest rates payable on the various debt instruments and the detailed modelling of funding costs associated with hedging. The opportunity cost of holding foreign cash is not included in these rates.

	Actual				Forecast		
	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Funding rates	9.2%	8.6%	8.7%	9.5%	9.2%	9.0%	8.6%

A5.6.2 Repayment and refinancing (OC)

The table below shows the forecast debt repayments and refinancing, based on the assumed roll-forward of 65 per cent. of bilateral funding, and 100 per cent. of previous intercompany loans, on maturity.

	FY15	FY16	FY17	FY18
	<i>ZAR million</i>			
Repayments.....	—	—	—	5 882
Bilateral debt rolled forward - treasury	—	—	—	(3 067)
Bilateral debt rolled forward – other previous intercompany	—	—	—	(537)
Net repayments	—	—	—	2 278

A5.6.3 Maturities (T)

Maturities of each liability, including Call Deposits, have been extended by the period of Curatorship plus 24 months i.e. 1 330 days has been added to the contractual maturity dates of existing instruments assuming a Transaction Effective Date of 1 April 2016. (Note that maturities have been extended by a period of 1 333 days for the purposes of the Exchange Offers, which are based on a Transaction Effective Date of 4 April 2016).

A5.6.4 Foreign exchange (OC)

- 8 August 2014 closing rates, CHF ZAR rate of 11.7709 and USD ZAR rate of 10.6594, have been used for the Curatorship date, 10 August 2014.
- **Foreign currency liabilities and foreign currency cash assets:** It is assumed that the CHF ZAR and USD ZAR exchange rates used to revalue foreign currency liabilities and foreign currency cash assets at the year-end balance sheet dates will fluctuate during the Base Case Period in line with derived forecast spot rates indicated in the table below. The calendar year end rates were derived from a curve based on Bloomberg information using forecast spot rates from various local and international financial institutions published during the period September 2015 to November 2015, but adjusted by ZAR2/USD and ZAR2/CHF as at Transaction Effective Date and each year end balance sheet date, to

allow for the depreciation of the ZAR during December 2015 and January 2016. Certain outliers were removed from the population and the September closing spot values were interpolated from the closing calendar spot rates. This results in the expected future spot curve as at each September year end and as at the Transaction Effective Date as shown below.

	Actual	Forecast			
	FY15	1 April 16	FY16	FY17	FY18
USD ZAR	13.86	15.84	15.82	15.04	14.79
CHF ZAR	14.22	16.24	16.26	15.18	14.68

Updates to market forecasted spot rates subsequent to November 2015 are per management's view, not representative, given the substantial volatility in ZAR exchange rates since then and the uncertainty in the market. The curve for forecast spot exchange rate movements is therefore based on the Bloomberg information as adjusted and indicated above.

- The forecast financial information is reliant on the Rand exchange rate assumptions made and applied in the preparation of the Good Bank Forecasts. There has been recent increased volatility in Rand foreign exchange rates. In order to assist further in the assessment of the impact of this volatility we present the effect that the ZAR2 depreciation against the USD and CHF before the Transaction Effective Date has had on key metrics within the forecast Good Bank.

**The effect of a ZAR 2 depreciation pre Transaction Effective
Date to the following rates**

	Pre Transaction Effective Date	Post Transaction Effective Date		
	6m to March 2016	6m to Sept16	FY17	FY18
USD ZAR	15.84	15.82	15.04	14.79
CHF ZAR	16.24	16.26	15.18	14.68
Loss on earnings ZARm	(395)	(47)	(92)	(102)
Impact on liabilities ZARm Increase	—	3 387	2 582	2 089
Impact on CET Target	—	(0.4%)	(1.4%)	(1.9%)

The variance analysis disclosed within the table reflects both the net interest impact and foreign exchange losses, but excludes the impact of adjustments to the Top-up Cash Amount and goodwill as these are not a direct impact of the foreign exchange rate movement.

The impact of the volatility of the exchange rate on the carrying value of liabilities is substantially mitigated through an economic hedge resulting in an increase in foreign currency cash and other financial instruments.

A5.6.5 CPI index projections (OC)

- **Inflation linked liabilities:** Various local economists' consumer inflation forecasts were used to derive a composite average inflation curve as shown in the table below. The inflation linked liabilities are revalued at the year-end balance sheet dates using the derived inflation curve and the annual coupons are also inflated using the same curve.

	Actual	Forecast		
	FY15	FY16	FY17	FY18
Average inflation rate	4.92%	5.90%	5.55%	5.80%

- **Inflation linked swaps:** It is assumed that new inflation linked swaps will be entered into on the Transaction Effective Date so as to match and hedge the inflation linked liability funding. The fixed ZAR pay leg of the swap is discounted using the ZAR zero coupon curve and the floating inflation linked receive leg is determined by inflating the ZAR receive amounts by the market inflation index and discounting the result by the ZAR zero coupon curve.
- CPI indices have been updated with actual numbers to September 2015. The monthly indices are published by Statistics South Africa.
- The projection of monthly indices going forward was performed using local economists' composite inflations rates as provided above. Daily indices are then obtained by interpolating the monthly indices using the following formula:

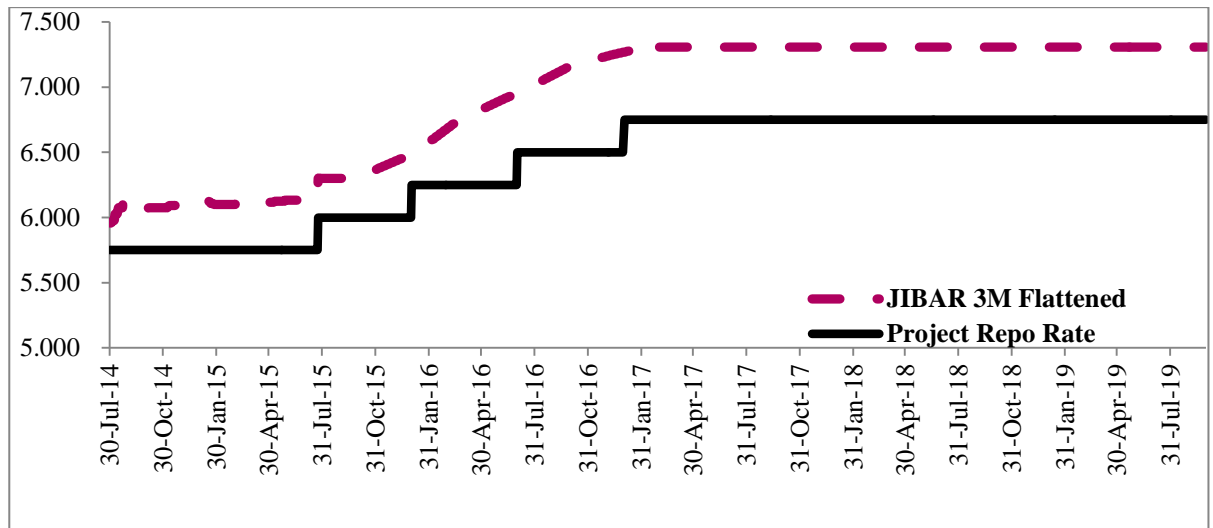
$$Ref_CPI = Ref_CPI_J + \frac{(t-1)}{D} \{Ref_CPI_{J+1} - Ref_CPI_J\}$$

Where:

- Ref_CPI is the CPI Index for the applicable payment date;
- Ref_CPI_J is the index level for the first day of the fourth calendar month preceding the calendar month in which the applicable payment date occurs;
- Ref_CPI_{J+1} is the index level for the first day of the third calendar month preceding the calendar month in which the applicable payment date occurs;
- t is the calendar day corresponding to the applicable payment date; and
- D is the number of days in the calendar month in which applicable payment date occurs.
- Base indices for each new instrument are as per the original contracts, and thus were not pulled from the curve.

A5.6.6 JIBAR projections (OC)

- Actual JIBAR is used until September 2015, and thereafter projections are used.
- 3 month JIBAR forward curve has been forecast to track the repo rate, which is assumed to increase by 25bps in January 2016, July 2016 and January 2017; increasing the repo rate from the current level of 6.0 per cent. to 6.75 per cent. over the forecast period. Please see further illustration of this below. As noted in Annexure A5.3.4, although the repo rate changed in November 2015, we have assumed that the repo rate increases in January 2016. No actual subsequent repo rate increases have been taken into consideration.



- The forecast financial information is reliant on the interest rate assumptions made and applied in the preparation of the Good Bank Forecasts. Recent volatility in the market may result in interest rate increases beyond those forecast. Analysis indicates that an increase in interest rates generally have a positive net impact on profit as a result of changes to interest earned and interest paid, before any potential impact on the credit performance of the Good Book.

A5.6.7 Derivatives/Swaps (OC)

- Estimated swap funding cost is assumed to vary over the Base Case Period, based on detailed calculations with reference to the specific interest rates applicable to the underlying instruments, and after considering the effective cost of hedging and derivatives.
- Foreign currency derivative assets and derivative liabilities are assumed to transfer to Good Bank at full value and remain in place until they mature, at which point they will not be replaced and the USD or CHF cash realised at maturity will be held as an economic hedge against future exchange rate movements.
- Existing inflation linked swaps are assumed to have been terminated prior to the Transaction Effective Date, and new inflation linked swaps entered into on the Transaction Effective Date for the inflation liability in Good Bank.
- Remaining swap collateral cash and liabilities are assumed to transfer to Good Bank at 100 per cent. of face value, fluctuating in value during the Base Case Period in line with exchange rate projections and remain in place until the underlying instrument to which they relate has matured.
- The foreign currency swaps are revalued to determine their market value as at each of the forecast balance sheet dates. The ZAR pay contractual obligations are discounted using the ZAR basis adjusted zero coupon curve as at 30 September 2015. The ZAR basis adjusted curve consists of the ZAR swap curve plus currency basis spread adjustment. The swap curve used is a combination of one, two and three month JIBAR rates, forward rate agreements to one year and then the swap rates for two to 30 years. The USD or CHF receive contractual flows are discounted using the applicable foreign currency's market zero coupon curve as extracted from Bloomberg. The present value of the foreign currency legs are converted to ZAR using the expected future spot curve, as explained in Annexure A5.6.4 above. The expected future spot rates are not market observed forward rates and therefore the expected market value at each forecast balance sheet date does not represent a risk-neutral forward fair value, but a market value assuming the forward rates in Annexure A5.6.4 holds true.

A5.6.8 Hedging and Hedge Accounting

It is assumed that the same liability hedging strategy as was in place in African Bank prior to entering into Curatorship, will apply to managing the various risks associated with the funding liabilities within Good Bank i.e.:

- Foreign exchange risk will be neutralised by cross currency hedges and holding foreign currency cash assets;
- All inflation risk will be neutralised by CPI linked hedges and holding inflation linked assets; and
- Interest rate risk, to the extent that it was neutralised prior to Curatorship, will be managed by interest rate hedges.
- It is also assumed that, Good Bank will not apply hedge accounting and that the mark to market movements in the underlying hedges will therefore affect the income statement of Good Bank.
- The current hedging contracts within Residual Bank will be transferred to Good Bank in terms of S54 of the Banks Act. However, for purposes of the financial modelling, the inflation linked contracts are assumed to have been terminated and new contracts entered into on the Transaction Effective Date. It is then assumed that any fair value derivative asset or liability within Good Bank will remain in place until it matures, at which point the derivative instrument will not be replaced. Good Bank will retain the cash realised on maturity, in order to manage their foreign currency risk by way of economic hedging. No inflation of interest rate derivative instruments will mature during the Base Case Period.

A5.6.9 Effective interest rate for the funding within Good Bank

- Each New Debt Instrument is assumed to have the same contractual interest rate as that of the corresponding Existing Debt Instrument, in terms of the Restructuring (T).
- The interest expense charge recorded in the Good Bank income statement will comprise contractual cost and the estimated swap funding cost described above (OC).
- Interest accrued at period end is included in liabilities, as part of the treasury funding line on the balance sheet. Interest on subordinated bonds is shown on a separate line on the balance sheet (IC).
- In terms of the Restructuring, interest will accrue on the subordinated bonds from 1 December 2015 and will be settled as part of the first scheduled coupon payment on the New Subordinated Debt Instruments (T).

A5.6.10 Refinancing and roll overs

- It is assumed that for maturities of bilateral funding, (being all funding other than DMTN and EMTN bond issuances and previous intercompany loans) 65 per cent. of the maturity rolls into a new funding instrument issued by Good Bank at the existing interest rate and extended maturity dates (which are assumed to occur beyond the Base Case Period). It is assumed that 35 per cent. is repaid (OC).
- It is assumed that for existing previous intercompany loans, 100 per cent. of the maturity rolls into a new funding instrument issued by Good Bank at the existing interest rate and extended maturity dates (which are assumed to occur beyond the Base Case Period). As such, it is assumed that no withdrawals are made from the previous intercompany deposit accounts in the Base Case Period (OC).
- DMTN and EMTN bond issuances maturing during the Base Case Period are assumed to be repaid as and when they become contractually due with no replacement bonds being issued (IC).

- A minimum liquidity ratio of 15 per cent. of net advances will trigger further refinancing. It is not forecast that this trigger will be reached during the Base Case Period (IC).
- It has been assumed that a Senior Cash Payment and Subordinated Cash Payment of ZAR4.9 billion will be made to creditors on the Transaction Effective Date, representing 10 per cent. of the principal amount plus accrued interest for Senior Funders and ZAR165 million plus accrued interest for Subordinated Funders. This has been added to the Restructuring to reduce the negative drag on earnings associated with holding high cash balances. This payment will be made by Residual Bank and is therefore not reflected in the Good Bank forecast (T).

A5.7 REGULATORY CAPITAL ASSUMPTIONS (OC)

African Bank currently uses, and Good Bank will use, the following approaches for regulatory capital calculations:

- Market risk: the standardised approach;
- Credit risk and counterparty credit risk: the standardised approach;
- Equity risk: 100 per cent. risk-weighted by virtue of the standardised approach used for credit risk; and
- Operational risk: the alternative standardised approach.

The method listed above relies primarily on risk-weighting defined assets. Hence, it is possible to forecast risk-weighted assets by using defined or historically observed risk-weightings, for certain lines of the balance sheet. The specific risk-weightings used are shown in the table below.

Risk type	Balance sheet item	Risk-weighting	Comment
Market Risk	Net open cash position per currency in ZAR equivalent	100%	The ZAR equivalent of greater of the long or short net open position for all foreign currency balances requires capital of 8%, multiplied by 12.5 to create an effective 100% RWA requirement
Credit Risk	Short-term deposits and cash	20% / 50%	Interbank deposits in ZAR are risk weighted at 20%, while foreign currency deposits are risk weighted at 50%
	Collateral cash	20%	Interbank deposits, all in ZAR
	Statutory assets- bank	0%	Assets held at SARB, sovereign risk
	Other assets-Intergroup	100%	Loans from 'Good Bank' to group risk-weighted as an unrated commercial loan
	Net advances	85%	Based on Good Book analysis for September 2015
Counterparty credit risk	Fair value of derivative asset, net of cash collateral held	82%	Based on pro forma BA 200 results analysis for August 2015 We have assumed the following in our risk weight percentage calculation of counterparty credit risk in respect of derivatives: <ul style="list-style-type: none"> ○ Stable composition of derivative type ○ Stable composition of counterparty type ○ Stable composition of remaining maturity

Credit value adjustment (“CVA”)	None	n/a	Based on pro forma BA 200 results analysis for September 2015 (ZAR350 million Risk Weighted Assets) We have assumed the following in our risk weight value applied in our calculation of CVA Risk Weighted Assets: <ul style="list-style-type: none">○ Stable composition of derivative type○ Stable composition of counterparty type○ Stable composition of remaining maturity○ Stable composition of notional values
Operational risk	Gross advances	5.25%	Three reporting period average not available, therefore available average to date used, risk-weighted at 3.5%*12% (retail)*12.5
	Short-term deposits and cash	6.56%	Three reporting period average not available, therefore available average to date used, risk-weighted at 3.5%*15% (commercial)*12.5
	Collateral cash	6.56%	Three reporting period average not available, therefore available average to date used, risk-weighted at 3.5%*15% (commercial)*12.5
	An operational risk weighted asset floor of 12% of total risk weighted assets was applied consistently throughout the reporting period.		
Other assets	Other assets	100%	Other assets are risk-weighted at 100%
	Deferred tax asset	250%	Deferred tax assets related to timing differences are risk-weighted at 250%
	Property and equipment	100%	Other assets are risk-weighted at 100%

The following table illustrates the approach used to project available capital.

Capital designation	Balance sheet item	Comment
Common Equity Tier 1 (“CET1”)	Ordinary share capital and premium	Gross consortium capital injection (ZAR10 billion)
	Retained earnings	In a loss position on day 1 and treated as a deduction against capital
	Other reserves	Zero on day 1
Specified CET1 adjustments and deductions	Goodwill	Per balance sheet, difference between assets acquired and liabilities issues / assumed
	Intangible assets	Per balance sheet
Additional Tier 1 capital	None	Per balance sheet
Gross Tier 2 capital	Subordinated Debt	ZAR1.485 billion
	General provision (max 1.25% of credit Risk Weighted Assets)	General credit provisions up to a maximum of 1.25% of credit and counterparty credit risk weighted assets
Specified Tier 2 adjustments and deductions	None	Tier 2 instruments are assumed to be Basel III compliant

A5.8 TAX (OC)

A5.8.1 Deferred administration fees

The origination fees within Good Bank are deferred within the balance sheet and are amortised to the income statement over the term of the loan. It is assumed for tax purposes that origination fees are taxed at the earlier of receipt or accrual. The deferral of origination fees on new loans each month in Good Bank (inflow to the balance sheet) is assumed to be materially consistent in value to the amortisation of such fees on the Good Bank loan book (outflow from the balance sheet). Due to this offset it is assumed that there is no income statement impact and therefore that the tax treatment follows the accounting treatment.

A5.8.2 FV adjustments on advances

The fair value adjustment, which is the premium paid for the loan book over and above the face value, will be regarded as interest for tax purposes in terms of section 24J of the Income Tax Act. Therefore this fair value adjustment is spread over the period of the loan book for tax purposes, using the yield to maturity of the entire book. It is assumed that the accounting interest and the unwind of the fair value adjustment on the acquired loan book will not differ significantly from the tax interest calculated in terms of section 24J. It is assumed that for purposes of calculating the yield to maturity for section 24J that the expected cash flows of the acquired book can be utilised.

A5.8.3 Charge for provision for bad debts

Section 11(j) of the Income Tax Act provides for an allowance on the provision for bad debts. The following deductions/allowance are permitted per the Banking Association of South Africa ruling (on undiscounted numbers): Specific 100 per cent., PSI 80 per cent. and IBNR 25 per cent. These allowances should be included in the income statement of the taxpayer in the following year i.e. the allowance should be calculated on the movement of the provision for bad debts.

The splits of the provisions for bad debt used in the forecasts between specific, PSI and IBNR are the actual splits as at March 2015, being 77.5 per cent., 20.6 per cent., and 1.9 per cent. respectively. The discount factors applicable in Good Bank during the Base Case Period are assumed to be consistent to that which will be applied in African Bank in the 2014 year of assessment, being 90.9 per cent., 77.5 per cent., and 77.0 per cent. respectively.

Applying these deductible factors, provision proportions, and discount factors (and allowing for 0.4 per cent. VAT input credits on write-offs) gives an overall weighted average taxable allowance for movements in bad debt provisions of 83 per cent.

A deferred tax asset is raised on the disallowed proportion of the movement in bad debt provisions each period (i.e. on the remaining 17 per cent. movement). It is forecast that the non-specific provisions are either utilised or evolve to specific provisions after 12 months.

In calculating the disallowed portion of the movement in bad debt provisions, the forecasts have not adjusted the provision for bad debts associated with the Good Book at the Transaction Effective Date, which for this calculation, is still based on the provisioning as would have been calculated in African Bank. Given that the tax calculations for provisions will be based on the fair value accounting of the Good Book as at the Transaction Effective Date, this assumption results in a more conservative income tax calculation. This assumption does not impact forecast net profits given that forecast deferred tax is aligned with this assumption.

A5.8.4 Operating costs

From a tax perspective, operating expenses of a capital nature are assumed to be immaterial i.e. no material consulting or legal expenses of a capital nature are assumed to be incurred in Good Bank.

A5.8.5 Depreciation of fixed assets and amortisation of intangibles

The fixed assets and software intangible assets within Good Bank are forecast to be depreciated over 48 months. Interpretation Note 47 provides for the following write off periods for tax purposes: furniture - 6 years; office equipment - 3 years; motor vehicles - 4 years; personal computers - 3 years; and self-developed software - 1 year. The impact of the difference between accounting and tax treatment is immaterial. Therefore for tax purposes, fixed assets and intangible assets have been written off over the same period as accounting.

A5.8.6 Tax Rate

The income tax rate is assumed to be 28 per cent.

A5.8.7 Deferred tax on assessable loss

Good Bank is forecast to make sufficient profits in the foreseeable future to utilise assessable losses, therefore deferred tax has been raised on assessable losses where these arise.

A5.8.8 Tax Payments

An entity is required to make an estimate of its taxable income for the year and pay two provisional payments based on this estimate, the first payment six months into the year (i.e. 31 March) and the second payment at year end (i.e. 30 September). An entity only makes provisional payments if it expects to be in a tax paying position at the end of the year (after taking into account any assessed loss from prior years). As such, any accrued tax liabilities are forecast to be paid on 31 March and 30 September each year throughout the projection period.

A5.8.9 Effective tax rate

It is assumed that there are no material permanent differences in Good Bank, except for VAT arising on certain assets on acquisition date (refer to A5.8.11).

A5.8.10 Monthly service fees

The treatment of monthly service fees are assumed to be consistent for accounting and tax purposes.

A5.8.11 VAT

As Good Bank is forecast to have both vatable, as well as non-vatable income, it is assumed to be subject to s17 of the Value-Added Tax Act No. 89 of 1991, which will require it to apply a turnover based methodology to apportion input tax between what is allowed and what is disallowed. At the time of this document, a VAT ruling has not yet been granted. Analysis has shown that the current African Bank apportionment ratio is more conservative than if a turnover based methodology is applied. Therefore, for purposes of the Good Bank forecast financial information, it has been assumed that the apportionment ratio in Good Bank will be the same as that currently evident in African Bank. The resulting disallowed VAT ratio (being 68.42 per cent.) has been applied to the forecast vatable portion of the forecast operating expenses to calculate the income statement impact of VAT input disallowed. In addition to this, the number is further adjusted by the impact specific VAT rulings where applicable.

As a result of the sale of the Good Bank Business from African Bank to Good Bank, VAT will become due on the property and equipment, intangibles and goodwill assets being transferred. The recoverable proportion of this VAT charge is assumed to be broadly in line with the split disclosed above, with the balancing irrecoverable value recorded in reserves at Transaction Effective Date and recycled as a charged through the income statement in year one.

A5.9 OTHER SPECIFIC ASSUMPTIONS

The following additional assumptions are made in order to create the above forecast financial statements of Good Bank:

- Good Bank's financial years run from 1 October to 30 September (IC).
- Good Bank will not pay any dividends during the projection period (IC).
- Based on the experience within African Bank, Good Bank capital expenditure on property and equipment will be ZAR9.2 million per month throughout the Base Case Period (IC).
- Good Bank capital expenditure on intangible assets (i.e. IT, software) will be zero throughout the Base Case Period (IC).
- Good Bank property and equipment (excluding land and buildings portion which is discussed in Annexure A5.2.2) will depreciate using the straight line method over 48 months (IC). Those elements of Good Bank intangible assets relating to IT and software will depreciate using the straight line method over 48 months. The brand will be an indefinite life asset with no amortisation (IC).
- The deferred administration fees within Good Bank (relating to portions of upfront fees which are not recognised upon receipt) are static throughout the projection period (IC).
- IFRS 9 will not be early adopted by Good Bank and will be implemented only after the Base Case Period (IC).

Reporting accountant's report on pro-forma financial information

The Directors
K2014176899 (South Africa) Limited
59 16th Road
Midrand
Johannesburg

INDEPENDENT ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN THE EURO MEDIUM TERM NOTE PROGRAMME BASE PROSPECTUS OF K2014176899 (SOUTH AFRICA) LIMITED (“THE ISSUER”)

Dear Sirs

We have completed our reasonable assurance engagement to report on the compilation of pro forma financial information of African Bank Limited (“the Company”). The pro forma financial information consists of:

- a pro forma statement of financial position at 30 September 2015 for “Good Bank” (Refer to Annexure A3); and
- a pro forma statement of profit or loss from 1 October 2014 to 30 September 2015 for “Good Bank” (Refer to Annexure A3).

The applicable criteria on the basis of which the directors of the Issuer (“the Directors”) have compiled the pro forma financial information are specified in the JSE Listings Requirements and the United Kingdom Financial Conduct Authority (“FCA”) Prospectus Rules and are described in Annexure A3.

The Curator of the Company intends on entering into a restructuring to form a new entity, Good Bank under which new debt listings will be made under a Domestic Medium Term Note (“DMTN”) programme and a Euro Medium Term Note (“EMTN”) programme. As a result, the Directors have prepared pro forma financial information for inclusion in the Base Prospectus to illustrate the impact of the restructuring on the relevant statement of financial position to form Good Bank at 30 September 2015 and on the statement of profit or loss for the period ended as referred to above as if the restructuring had taken place at 1 October 2014. As part of this process, information about the Company's financial position and financial performance has been extracted by the Directors from the Company's financial statements for the year ended 30 September 2015, on which a qualified audit report has been published.

The Directors’ Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information on the basis of the JSE Listings Requirements and the FCA Prospectus Rules. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the pro forma financial information that is free from material misstatement, whether due to fraud or error.

Assurance Practitioner’s Responsibility

Our responsibility is to express an opinion as required by the JSE Listings Requirements and United Kingdom Listing Authority (“UKLA”) about whether the pro forma financial information has been properly compiled by the Directors on the basis of the JSE Listings Requirements and the FCA Prospectus Rules, based on our procedures.

We conducted our engagement in accordance with International Standard on Assurance Engagements (“ISAE”) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the International Auditing and Assurance Standards Board. This standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have properly compiled the pro forma financial information on the basis of the JSE Listings Requirements and the FCA Prospectus Rules.

National Executive: *LL Bam Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit
DL Kennedy Risk Advisory *NB Kader Tax TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries
*JK Mazzocco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy *TJ Brown Chairman of the Board
*MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

* Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

Our firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information. We are not responsible for reporting on any transactions beyond the period covered by our reasonable assurance engagement.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the Company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Save for any responsibility arising under FCA Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex IX item 13.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated and in accordance with the JSE Listings Requirements and the FCA Prospectus Rules; and
- such basis is consistent with the accounting policies of "Good Bank".

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex XIII item 1.2 of the Prospectus Directive Regulation.

Deloitte & Touche

Deloitte & Touche
Woodmead, Gauteng

Registered Auditor

Per: Graeme Berry
Partner

16 March 2016

PRINCIPAL OFFICE OF THE ISSUER

K2014176899 (SOUTH AFRICA) LIMITED

(Registration number 2014/176899/06)

*To change its name to **AFRICAN BANK LIMITED** (Registration Number 2014/176899/06) by the date any Notes are issued hereunder*

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South Africa

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