**AFRICAN BANK LIMITED**
*(Registration number 2014/176899/06)*
*(incorporated with limited liability in the Republic of South Africa)*
(the "**Issuer**" or the "**Bank**")

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**BUSINESS AND RISK INFORMATION MEMORANDUM**

**relating to the Issuer's**

**ZAR25 000 000 000**

**Domestic Medium Term Note Programme**

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On 22 March 2016, the Issuer established its ZAR 25 000 000 000 Domestic Medium Term Note Programme (the "**Programme**") pursuant to a programme memorandum registered with the JSE Limited (the "**JSE**") on that date and which has been updated by a supplement thereto dated 5 November 2018 (the "**Previous Programme Memorandum**"). The Previous Programme Memorandum continues to apply to all Series of Notes issued by the Issuer prior to 13 March 2019.

Further, on 13 March 2019 (the "**Updated Programme Date**"), the Issuer registered an updated and restated programme memorandum with the JSE (the "**Updated Programme Memorandum**") which applied to all Series of Notes issued under the Programme on and after the Updated Programme Date.

This document headed the "*Business and Risk Information Memorandum*" (the "**Information Memorandum**") contains the following information, as at 18 March 2021 (the "**Information Date**"), which is incorporated by reference into the Previous Programme Memorandum and the Updated Programme Memorandum:

- a description of the business carried on by the Issuer;
- a description of the material risk factors applicable to the Issuer and the Notes contemplated in the Updated Programme Memorandum;
- Director's declaration;
- information regarding the Debt Officer;
- information about where to source the conflicts of interest and nominations policies applicable to the Boards and the Governance Report; and
- other financial and background information.

A reference to the "**Relevant Programme Memorandum**" in this Information Memorandum, in respect of a Series of Notes:

- initially issued after 22 March 2016 but prior to the Updated Programme Date, is a reference to the Previous Programme Memorandum; and
- initially issued on or after the Updated Programme Date, is a reference to the Updated Programme Memorandum.

Subject to the foregoing, capitalised terms used in this Information Memorandum, unless defined in the section in this Information Memorandum headed "**Glossary of Terms**", are as defined in the Relevant Programme Memorandum and/or in relation to a Tranche of Notes, in the Applicable Pricing Supplement.

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**Information Memorandum date: 18 March 2021**

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## GLOSSARY OF TERMS

"**ABH**" means African Bank Holdings Limited, registration number 2014/176855/06, a public company incorporated in accordance with the laws of South Africa, being the ultimate holding company of the ABH Group;

"**ABH Board**" means the board of directors of ABH;

"**ABH Group**" or the "**Group**" means ABH and its wholly-owned subsidiaries: (i) AIG and (ii) the Issuer;

"**ABH Integrated Report**" means the most recent integrated report of the ABH Group available on the website of the Issuer (www.africanbank.co.za under the "***Investors***" – "***Corporate Information***" "***Financial Reporting***" path in such website) and which is incorporated by reference into each Relevant Programme Memorandum, but investors and prospective investors should disregard any information in such integrated report relating to the insurance operations and insurance income of the ABH Group as these do not fall within the income or assets of the Issuer;

"**ABH Shares**" means ordinary shares with a par value of ZAR0.01 in ABH;

"**Acquired Book**" means loans having a gross book value of approximately ZAR29.2 billion as at 1 April 2016, (which amount, net of provisions on acquisition was approximately ZAR20.9 billion);

"**African Phoenix**" means African Phoenix Investments Limited (registration number 1946/021193/06), (formerly called African Bank Investments Limited) a public company incorporated in accordance with the laws of South Africa and listed on the JSE, being the holding company of RDS;

"**AIG**" means African Insurance Group Limited, registration number 2014/177424/06, a public company incorporated in accordance with the laws of South Africa, a wholly owned subsidiary of ABH, and the company that owns the Cell Captive Shares;

"**AIG Board**" means the board of directors of AIG;

"**ALCO**" means the Asset and Liability Committee of the Group, being a subcommittee of the RCMC;

"**Annual Governance Report**" means the most recent governance report of the ABH Group available on the website of the Issuer (www.africanbank.co.za under the "***Investors***" – "***Corporate Information***" "***Governance Report (including King Code)***" path in such website) and which is incorporated by reference into this Information Memorandum;

"**Banks Act**" means the Banks Act 94 of 1990 (as amended) of South Africa;

"**Bank's Board**" means the board of directors of the Issuer;

"**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 Programme or the Issuer's 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;

“**Boards**” means the ABH Board and the Bank’s Board, which, at the Information Date, comprise the same individuals;

“**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;

“**CD**” refers to the contractual delinquency status of a loan (and for more information on these classifications see “*Description of the Issuer – Risk Management – Credit risk management – Impairments*”);

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

“**Cell Captive Shares**” means the L24 shares in Guardrisk, being a specific and separate class of cell owner ordinary shares in Guardrisk issued to AIG, which enables AIG to participate in the risk and economic result of the agreed insurance business introduced to Guardrisk by the Issuer;

“**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);

“**Consortium**” means SARB, GEPF and the Participating Banks;

“**Curator**” means the person appointed by the Minister of Finance in terms of section 69 of the Banks Act as the curator of RDS being, as at the Information Date, Mr. Craig Du Plessis;

“**Curatorship**” means the curatorship of RDS 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 RDS under Curatorship;

“**DMTN**” means domestic medium-term note;

"**EMTN**" means euro medium term note;

"**EMTN Programme**" means the Issuer’s USD6 billion Euro Medium Term Note programme admitted to the official list of the United Kingdom Financial Conduct Authority and admitted to trading on the regulated market of the LSE and with certain series of notes under such programme listed on the SIX;

“**Exchange Offers**” means the non-renounceable offers made by RDS during February 2016 which enabled senior and subordinated funders of RDS (and other senior creditors of RDS) to exchange their existing debt instruments in RDS (or other senior claims as the case may have been) for, *inter alia*, New Debt Instruments in the Issuer;

“**FAIS**” means the Financial Advisory and Intermediary Services Act 37 of 2002 (as amended);

“**FICA**” means the Financial Intelligence Centre Act 38 of 2001 (as amended);

“**Financial Markets Act**” means the Financial Markets Act 19 of 2012 of South Africa (as amended);

“**FSB**” means the South African Financial Services Board established in terms of the Financial Services Board Act 97 of 1990 (as amended), which was transformed into the FSCA with effect on 1 April 2018;

“**FSCA**” means the Financial Sector Conduct Authority established in terms of the FSR Act;

“**FSR Act**” means the Financial Sector Regulation Act 9 of 2017, as amended from time to time;

"**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 Acquired Book, certain operational assets, the RDS Retail Deposits and certain operational liabilities, all of which were transferred to the Issuer on the Transaction Effective Date together with approximately ZAR2.4 billion in cash;

"**Group**" or "**ABH Group**" means ABH and its wholly-owned subsidiaries: (i) AIG and (ii) the Issuer;

"**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;

"**ICAAP**" means the annual internal capital adequacy assessment process;

"**IFRS**" means International Financial Reporting Standards as issued by the International Accounting Standards Board;

"**ISO**" means the International Organisation for Standardisation;

"**JIBAR**" means the Johannesburg Interbank Agreed Rate;

"**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 IV**" means the *King IV Report on Governance for South Africa 2016* issued by the King Committee on 1 November 2016 which is effective in respect of financial years of companies commencing on or after 1 April 2017;

"**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;

"**MRC**" means the Model Risk Committee of the Group, being a subcommittee of the RCMC;

"**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;

"**NSFR**" means Net Stable Funding Ratio;

"**New Debt Instruments**" means senior debt instruments and subordinated debt instruments (Tier 2 Notes) in the Issuer issued to RDS on the Transaction Effective Date pursuant to the Restructuring (which were immediately transferred to senior and subordinated funders of RDS, and other senior creditors of RDS, pursuant to the Exchange Offers);

"**Participating Banks**" means Absa Bank Limited (which holds its investment in ABH through Absa Trading and Investment Solutions (Proprietary) Limited), Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited;

"**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 GEPF;

"**Pillar 3 Disclosures**" means the most recent Public Pillar 3 Disclosures of the Issuer and ABH in terms of the Banks Act and the Regulations Relating to Banks available from time to time on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Regulatory Announcements***" "***Basel Pillar III announcements***" path in such website);

"**PNs**" means promissory notes;

"**POPI Act**" means the Protection of Personal Information Act 4 of 2013 (as amended);

"**Prudential Authority**" means the Prudential Authority established under section 32 of the FSR Act, which provides for the establishment of, *inter alia*, the Prudential Authority, which has, with effect on 1 April 2018 replaced the Registrar of Banks as the Relevant Regulator;

"**RCMC**" means the Group Risk and Capital Management Committee;

"**RDS**" means Residual Debt Services Limited (under Curatorship) (registration number 1975/002526/06), (previously called "*African Bank Limited (under Curatorship)*" prior to 4 April 2016), a public company incorporated in accordance with the laws of South Africa and a wholly-owned subsidiary of African Phoenix, the sole business and purpose of which is to collect the Residual Book and any other cash accruing to it, and to distribute such proceeds (net of costs) to its creditors;

"**RDS Retail Deposits**" means deposits received by RDS before the Transaction Effective Date, where such deposits were made in the name of natural persons and where RDS relied on the identity numbers or passport numbers of such natural persons, together with other personal documentation required in terms of FICA, 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);

"**Regulations Relating to Banks**" means the Regulations promulgated under section 90 of the Banks Act (published under Government Notice R1029 in Government Gazette 35950 of 12 December 2012, as amended by Government Notice R261 in Government Gazette 38616 of 27 March 2015, Government Notice R309 in Government Gazette 38682 of 10 April 2015, Government Notice R297 in Government Gazette 40002 of 20 May 2016 and Government Notice R724 in Government Gazette 44003 of 18 December 2020), 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 Programme Memorandum**" means, in respect of a Series of Notes:

- issued after 22 March 2016 but prior to 19 March 2019, is a reference to the Previous Programme Memorandum, being a programme memorandum registered with the JSE on 22 March 2016, pursuant to which the Issuer established the Programme, as amended and supplemented from time to time;
- initially issued on or after 19 March 2019, is a reference to the Updated Programme Memorandum, being an updated and restated programme memorandum registered with the JSE on 13 March 2019, as amended and supplemented from time to time;

"**Relevant Regulator**" means the Prudential Authority 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;

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

"**Residual Book**" means the loan portfolio retained by RDS after the Transaction Effective Date having a gross book value of ZAR11.3 billion as at the Transaction Effective Date (excluding the written-off book);

"**Resolution**" bears such meaning as defined in the draft Financial Sector Laws Amendment Bill, 2018 of South Africa, as such bill is enacted and amended from time to time and as further described under the headings in this

Information Memorandum in "*Risk Factors – The Issuer operates in a highly regulated environment which is subject to change – Resolution Framework"*;

"**Restructuring**" means the transaction relating to the resolution of RDS, a summary of which is contained in the section of this Information Memorandum headed *"Curatorship of Old African Bank, Summary of Restructuring and Summary of Post-Restructuring"*;

"**Retail Deposits**" means deposits received by the Issuer, where such deposits are made in the name of natural persons, and where the identity numbers or passport numbers of such natural persons, together with other personal documentation required in terms of FICA, are obtained in order to confirm that such depositors are 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;

"**S&P**" means S&P Global Ratings Europe Limited;

"**Sale of Business Agreement**" means the sale of business agreement concluded between RDS and the Issuer on or about 3 February 2016 pursuant to which RDS sold and transferred the Good Bank Business to the Issuer and the Issuer issued 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);

"**SIX**" means the SIX SIS AG, the Swiss Securities Services Corporation in Olten, Switzerland;

"**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;

"**TechInfo Committee**" means the Technology and Information Committee of the Group, being a subcommittee of the RCMC;

"**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; and

"**Transaction Effective Date**" means the date of implementation of the Restructuring, which was 4 April 2016.

## RISK FACTORS

*An investment in the Notes involves a high degree of risk. Prospective investors should carefully read and review the entire Relevant Programme Memorandum 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 Information Memorandum 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 Information Memorandum. See the section in this Information Memorandum headed "Cautionary Note Regarding Forward-Looking Statements".*

*Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and the Relevant Programme Memorandum 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 in the Relevant Programme Memorandum and references to a numbered "Condition" shall be to the Terms and Condition under the relevant Terms and Conditions.*

## RISKS RELATED TO THE BUSINESS AND THE INDUSTRY OF THE ISSUER

For information on the management of the key risks impacting the business of the Issuer, see "*Description of the Issuer – Risk Management*".

### COVID-19

The full extent to which the recent Covid-19 pandemic impacts the Issuer's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted.

The outbreak of the coronavirus ("**Covid-19**") pandemic has adversely impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets, and increased unemployment levels. The Covid-19 pandemic has resulted in the temporary closure of many businesses, and the institution of physical distancing and country-wide lockdowns have impacted communities in countries across the globe, including in South Africa, where the Issuer generates all of its revenues.

The national lockdown also fundamentally impacted the retail banking sector of the South African economy, including but not limited to advances and collections. Adverse macroeconomic conditions placed pressure on customer cash flows as a result of unemployment and/or a reduction of their ability to service existing debt.

Even prior to the outbreak of Covid-19 in South Africa, and given an already weakened macroeconomic environment, including those relating to impacts of the global recession, South Africa's investment downgrades, socio-political instability, electricity disruptions and higher unemployment rates, the Issuer implemented steps to tighten various credit-granting criteria in September 2019. Further tightening measures occurred in April 2020 and, again, in August 2020, given the impacts of the Covid-19 extended lockdown on the financial wellbeing of consumers. As a key outcome, the level of disbursements granted to customers were substantially reduced during FY20, resulting in the year-end gross advances balance of the Issuer declining significantly.

In response to the Covid-19 pandemic, payment holidays have been offered to customers in good standing who were financially affected by the Covid-19 pandemic, with just less than 14% of eligible customers activating

this relief measure in the first three months of the national lockdown. As at the end of FY20, customer instalments totalling ZAR304 million had been deferred; providing cash flow relief to these customers and representing advances totalling ZAR3.9 billion. In turn, provisions on customer balances were increased from FY19 due to additional conservative provisioning, taking into account the impacts of the global pandemic.

The continuing Covid-19 pandemic could further impact the level of disbursements made by the Issuer and influence the recognition of credit losses in the Issuer's advances portfolios and result in increases in the Issuer's credit impairment charges, particularly as businesses are closed and as more customers lose their employment. The Issuer's business operations may also be disrupted if a significant portion of its workforce is unable to work effectively, including because of illness, quarantine, government actions, working remotely or other restrictions in connection with the Covid-19 pandemic. Remote working practices could increase exposure to information security risks and lead to data breaches.

While the outlook remains largely uncertain, ultimately, the Covid-19 virus's impact on global economic growth will be driven by the speed with which it is contained, the limited further impact of the second and successive waves of the virus and the permanent lifting of national lockdowns. Based on the Issuer's scenario-planning exercise, the Issuer expects the global and South African recession to be the worst in recent history. The expected recession combined with a potential weak recovery could have lasting impacts on efforts to sustainably alleviate high levels of unemployment, poverty and inequality.

There remains considerable uncertainty and forecast risk.

The Issuer's capital and liquidity levels remained well above regulatory minimums and internal risk appetite thresholds, which will support the Issuer in the face any additional turbulence and provides the financial resources to continue to support its customers.

In conclusion, the full extent to which the Covid-19 pandemic impacts the Issuer's business, financial condition and results of operations, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the Covid-19 pandemic and the impact of actions taken by regulators, governmental authorities and other third parties in response to the Covid-19 pandemic. A material deterioration in global economic conditions is likely to have a negative impact on macroeconomic conditions in South Africa, which may adversely affect the Issuer's operations and its financial condition

**STRATEGIC RISK**

***The Issuer may fail to implement its medium- to long-term business strategy.***

A comprehensive medium- to long-term strategy for the Issuer (see "*Description of the Issuer – Strategy of the Issuer*") has been developed by the management of the Issuer and its Board, with the view to the continuing transition of the Issuer's business from a single-product lending business to a retail transactional bank in South Africa with a diversified financial services business offering. Areas of focus in this strategy include diversification of business lines, channels and product in order to improve revenue and reduce costs. The implementation of such strategy has needed and will continue to 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, including its market position, reputation, and changes in its operations. In particular, failure to become a successful diversified digital retail bank could negatively impact the Issuer's long-term sustainability.

As a result, the successful implementation of the Issuer's strategy will require 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 expected 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 little assurance, other than through continued successful delivery thereof, that the Issuer will be able successfully to 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. Further, there can be no assurance that the Issuer will be able to achieve its capital, financial or operational targets 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.

See "*Description of the Issuer – Risk Management – Strategic Risk and Business Risk Management*" for a further discussion of the Issuer's management of such risks.

**FUNDING AND LIQUIDITY RISK**

The following are the principal funding and liquidity risks facing the Issuer at the Information Date.

***The Issuer is exposed to funding and liquidity risk.***

Access to sufficient funding at commercially acceptable pricing and from a diversified funding base is a significant business risk facing the Issuer, which could lead to pure liquidity risk. Liquidity risk is the inability to discharge funding or trading obligations as and when they fall due.

The Issuer's only publicly launched its transactional banking offering to the South African market in May 2019 which is intended, over time, to generate increasing levels of Retail Deposits and become and remain a significant source of funding for the Issuer. The Issuer's liquidity risk is further compounded by its need to re-establish itself as a reliable counterparty in the domestic and possibly the international capital markets due to the negative publicity surrounding the Curatorship and the resultant Restructuring of the relevant liabilities of RDS under the terms of the Exchange Offers, which damaged the Issuer's market reputation.

Notwithstanding the strategic initiatives of the Issuer to diversify its sources of funding via growing Retail Deposits and other initiatives, the Issuer will require access to wholesale funding in the medium and long term. Funders have historically expressed caution regarding the Issuer's ability to roll funding upon maturity due to low investor confidence resulting from the events leading up to the Curatorship, and the Curatorship itself, of RDS, which has hindered the Issuer's ability to re-enter the wholesale funding market, but improvements in such sentiments are evidenced by the Issuer issuing new DMTN's following the release of its financial statements for FY19 and the conclusion of the shareholder liquidity support arrangement during FY20. (See "*Capitalisation and Indebtedness - Primary Sources of Funding and Liquidity for the Issuer - Shareholder Liquidity Support*" for more information on the shareholder liquidity support arrangement.)

The Issuer's ability to access the required funding on acceptable terms, or at all, depends on a variety of factors, such as general market conditions, shareholder support, 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 from time to time, short- and long-term maturity mismatches and customers' and funders' perceptions of the Issuer's strategy, general debt capital market conditions and financial prospects. Unfavourable trends in any of the foregoing factors could result in an inability of the Issuer to raise wholesale funding on acceptable terms, or an inability of the Issuer to obtain relevant shareholder support, resulting in a liquidity shortage. If traditional funding sources are unavailable to the Issuer, it would be required to seek to utilise other, possibly more expensive, sources to meet its funding needs, to the extent that these other funding sources are available to it. In the event that such alternative funding sources are available (but at an increased cost) this could decrease the Issuer's net profit margins and have a material adverse effect on its business, liquidity, financial condition, results of operations and prospects.

See "*Description of the Issuer – Risk Management – Liquidity Risk Management*" for more information in respect of liquidity risk and its management.

***The Issuer could be adversely affected by its credit ratings or those of South Africa.***

The Issuer's credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding as well as its ability to obtain funding at all. 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 the sustainability and diversification of the Issuer's business model, quality of earnings, capital adequacy levels, credit exposure, the Issuer's risk management framework and funding diversification. Each Applicable Pricing Supplement will contain the rating of the Issuer at the relevant Issue Date. Any change in the Issuer's credit rating will be announced on SENS.

A downgrade of the Issuer's credit ratings, or being placed on a negative rating watch, may increase its cost of borrowing, limiting its ability to raise funding and adversely affect its operations.

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 could increase the cost of financing of the South African public debt. This 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.

There can also be no assurance that the rating agencies will maintain the Issuer's current ratings or those of South Africa. Ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

***The Issuer's creditors do not have recourse to the assets and income of the other ABH Group companies.***

The Noteholders do not have any recourse to ABH or any other members of the ABH Group (other than the Issuer) or any income or assets which ABH or any other members of the ABH Group (other than the Issuer) may have. There is no obligation on any other member of the ABH Group to provide any support to the Issuer and, in the event of the Issuer entering into any form of insolvency or resolution procedure, the assets of other members of the ABH Group would not be available to Noteholders in such procedure. As such, Noteholders should not rely in the creditworthiness of ABH or AIG when assessing the creditworthiness of the Issuer and deciding whether or not to invest in the Notes.

While the most recent ABH Integrated Report is incorporated by reference into each Relevant Programme Memorandum, investors and prospective investors should disregard any information in such integrated report relating to the insurance operations and insurance income of the ABH Group as these do not fall within the income or assets of the Issuer. Other assets of ABH and AIG, such as investment assets, also do not fall within the assets of the Issuer

***ABH/AIG are not obliged to deposit dividends from the Cell Captive arrangement with the Issuer.***

Since the establishment of this Cell Captive arrangement in early 2016 (see "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*"), when AIG has received dividends on the Cell Captive Shares, it has predominantly distributed these to ABH as its shareholder. ABH has, in turn, elected to either deposit distributions it receives from AIG with the Issuer, in all or part, or in other liquid investments outside of the ABH Group. When it has elected to deposit any such amounts in the Issuer, it does so on arms-length commercial terms as a corporate deposit. From time to time, AIG has invested available funds in the Issuer on arms-length commercial terms, pending a declaration of such funds as a dividend to ABH.

ABH, as the Issuer's parent company, is not obliged to invest dividends, if any, it receives from AIG (as ABH is the parent company of AIG) in the Issuer. Likewise, AIG is not obliged to invest dividends, if any, it receives on the Cell Captive Shares in the Issuer. There can also be no assurance that either or both of the ABH Board or the AIG Board will resolve to invest further amounts with the Issuer. There is also a risk that ABH or AIG may withdraw any or all money already deposited with the Issuer subject to the general terms and conditions of withdrawing a deposit. There can also be no assurance that the Cell Captive, and therefore AIG, will be sufficiently profitable to make distributions to ABH or place investments with the Issuer. The Cell Captive's profitability and business performance, in particular, depend on many factors that the Issuer cannot control, including the overall business and economic environment in South Africa, the impact of competition in the South African insurance market and customer demand for the insurance products underwritten by Guardrisk in respect of the Cell Captive. In addition, AIG has its own board of directors, which must approve any such dividend payment to ABH, which they may choose not to do, and they must comply with applicable legislation with respect to dividend distributions, which may potentially prevent dividend payments to ABH.

***The Issuer is exposed to interest rate risk.***

Interest rate risk for the purposes of IFRS is the risk that the fair value of future cash flows related to financial instruments will fluctuate because of changes in market interest rates.

The Issuer has interest rate risk arising in its financial assets, from its holdings in cash and cash equivalents, regulatory deposits and sovereign debt securities and credit card advances which earn interest at a variable rate, however the Issuer's most significant financial asset is its fixed-rate advances portfolio. With regard to the Issuer's fixed-rate advances portfolio, neither the carrying amount nor the future cash flows will fluctuate due to changes in market interest rates, however, the interest rate on new advances raised by the Issuer could be affected by the changing interest rates in the future. To manage interest rate risk, the Issuer seeks to achieve funding that, on a portfolio level, is at a similarly fixed rate as that of the advances portfolio and in doing so, achieves a fixed cost of funding.

It is not always feasible to raise fixed-rate funding and therefore the Issuer has a mix of fixed and variable rate funding instruments. Variable rate funding instruments expose the Issuer to interest rate risk. The Issuer therefore makes use of derivative instruments, primarily floating to fixed interest rate swaps, in order to reduce cash flow risk arising from changes in interest rates, taking into account its interest rate risk on an overall portfolio basis, within its overall limited interest rate risk appetite.

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 net interest income and hence 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 funding concentration risk.***

A major portion of the Issuer's initial domestic funding is 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, such as retail deposits, in the future. There can be no assurance that such financing will be available, when required, on commercially acceptable terms or at all.

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 rates at 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.

***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 particularly in the off-shore capital markets, restrict the Issuer's access to those self-same off-shore 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.

**CYBER-CRIME RISK**

***Cyber-crime could have a negative impact on the Issuer's operations***

As is the case for all businesses, the Issuer faces a constant challenge in preserving the confidentiality, integrity and availability of its information assets against a broad range of external and internal threats. The Issuer's operations are largely dependent on its own information technology systems and those of its third-party service providers. The Issuer could be negatively impacted by cyber-attacks on any of these systems. As the Issuer has moved into transactional and digital banking, the risk of cyber-crime has increased, especially as infiltrating technology is becoming increasingly sophisticated, and there can be no assurance that the Issuer will be able to prevent all threats.

The key sources of concern include the escalating sophistication of threats, increased volume of cyber-attacks in the world at large, and an ever-expanding cyber-attack surface. A successful cyber-attack could result in material losses of client or customer information and data access, disruption to critical information and digital systems and services, damage of computer systems, damage to the Issuer's reputation and lead to regulatory penalties or financial losses.

**INFORMATION TECHNOLOGY RISKS**

***The Issuer is exposed to information technology risk as part of its operations.***

As an aspect of operational risk, information technology risk stems from risks associated with misalignment between business strategy, an uncoordinated or inefficient IT strategy, failure of projects to deliver desired change, data protection and information privacy, effects of physical disasters on information systems, IT outsourcing, IT performance and information systems governance.

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, designed for the Issuer's business model, and is a core element of the Issuer's credit scoring process. 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.

***Failure to adequately maintain 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 POPI Act, the majority of the operative provisions of which came into force on 1 July 2020, with a twelve-month grace period for final implementation). See *"Description of the Issuer – Risk Management – Information and Technology Risk management – The POPI Act"*.

The POPI Act will have a significant impact on data management and data marketing by the Issuer. 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 and processing 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.

**CREDIT RISK**

Credit risk for the Issuer arises from three primary sources:

- the Issuer lending money to customers;
- cash and term deposits of the Issuer held at local banks as well deposit in various collective investment schemes such as money market and core income funds; and
- sovereign exposure to the South African government.

The first category is fundamental to the Issuer's core business at the Information Date, which is to provide unsecured personal loans to its customers (see "*The Issuer is exposed to credit risk by lending money to customers*" below).

The second category is as a result of the Issuer having a significant cash buffer and additional surplus cash deposited with local financial institutions, which in turn leads to credit risk on those counterparties. The third category relates to funds placed with SARB for regulatory reserving purposes as well as the investment in high quality liquid assets, such as treasury bills and government bonds, for prudential liquidity and liquidity management purposes. (See "*The Issuer is exposed to credit risk through deposits held at local financial institutions and sovereign exposure*".)

***The Issuer is exposed to credit risk by lending money to customers.***

The Issuer's business is subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from customers and other counterparties.

Adverse changes in the credit quality of the Issuer's customers or arising from systemic risk in the financial sector could reduce the value of the Issuer's assets as a result of increased impairment provisions. In particular, the Issuer's results of operations have been and will be affected by the level of impairment provisions applied to its advances portfolios. In addition, the Issuer provides unsecured lending and focuses on providing loans and credit cards to lower and middle-income customers and, accordingly, its advances portfolio displays a higher proportion of impaired loans when compared to other large South African banks whose advances portfolios are primarily composed of secured lending and loans to a broader spectrum of customers. As a result, net credit impairment charges could grow as a percentage of gross advances as the Issuer seeks to grow its advances 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 policies, it is possible that they will not function as intended due to external market factors or human or information technology ("**IT**") errors. Many factors affect the ability of the Issuer's customers to repay their loans. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, bankruptcy rates, and increased market volatility, might be difficult to anticipate and are completely outside of the Issuer's control. If macroeconomic conditions in South Africa deteriorate further (whether due to the impacts of Covid-19, further sovereign credit-rating downgrades, socio-political instability, higher unemployment rates, or other conditions), there can be no assurance that the level of the Issuer's non-performing advances and credit impairment provisions will not increase. This, in turn, could have an adverse effect on the Issuer's financial condition or results of operations.

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 as predicted, this 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 through deposits held at local financial institutions and sovereign exposure.***

As at the Information Date, the Issuer has a material amount of surplus cash deposited at local financial institutions, which in turn leads to credit risk based on the credit worthiness of such financial institutions.

Surplus liquidity is also invested in South African sovereign debt instruments in order to manage the statutory capital requirement on South African bank issuers, post the international foreign currency downgrade affecting the South African banks. The Issuer is therefore exposed to the credit risk of South Africa.

**REGULATORY RISK**

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

The Issuer is subject to regulatory supervision by, among others: (i) the Prudential Authority, who oversees activities falling within the ambit of the Banks Act and the Regulations Relating to Banks, (ii) the NCR, who is responsible for overseeing activities which fall within the ambit of the NCA; and (iii) the FSCA, which oversees activities which fall within the ambit of the FAIS.

All banking operations and various ancillary financial services in South Africa require certain licences and registrations from the various registrars and authorities that exercise their regulatory powers under the auspices of the FSCA, the NCR and the Banks Act. The Prudential Authority 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 Prudential Authority and/or fines imposed by the Prudential Authority 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.

***The Issuer operates in a highly regulated environment which is subject to change.***

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 "*Risks relating to the Notes and markets generally – 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:

*Financial Sector Regulation Act*

The FSR Act introduced significant reforms to the South African financial sector regulatory framework with effect on 1 April 2018. The FSR Act has given effect to the South African government's decision to implement a "twin peaks" model of financial regulation for South Africa. It also provides the Prudential Authority with significant powers, *inter alia*, to issue directives to one or more systemically important financial institutions (which includes all registered banks) relating to, amongst others, solvency measures, capital requirements, leverage ratios, liquidity, organisational structures, risk management arrangements, sectoral and geographical exposures, recovery and resolution planning. Consequently, the Issuer's operations and organisational structures are subject to on-going supervision and regulation. Implementation of directives from the Prudential Authority 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. Although the Issuer works closely with its regulators and continuously monitors the situation, the outcomes of such on-going supervision and regulation cannot be predicted and are beyond the control of the Issuer.

*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. As changes to such regulations and 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.

*Resolution Framework*

On 17 August 2020, a Financial Sector Laws Amendment Bill, 2020 was tabled in parliament (but has not, at the Information Date, been passed), which Bill proposes to establish a framework for the orderly Resolution of banks, systemically important non-bank financial institutions and holding companies of banks or systemically important non-bank financial institutions that are designated by the Governor of the SARB as systemically important.

Until there is finalisation and enactment of the provisions relating to the long-anticipated Resolution regime, there is uncertainty as to the manner in which banks (and their capital instruments) will be treated in the event of a Resolution.

*The NCA and unsecured lending*

Credit lending in South Africa is highly regulated through the NCA. See "*Description of the Issuer – Risk Management – Credit risk management – Event driven management credit estimates – NCA and National Credit Amendment Act*" for a description of NCA, including amendments to the NCA and other legal and regulatory developments which include the introduction of capped debt intervention measures to further alleviate household over-indebtedness of consumers by unscrupulous lenders such as debt being re-arranged or extinguished.

The introduction of the National Credit Amendment Act 7 of 2019, which was signed into law during August 2019, together with uncertainties and potential challenges regarding the DebiCheck authentication process (described in "*Collection methodologies*" below), have impacted and may further impact the Issuer's credit risk appetite, resulting in a tightening by the Issuer of its underwriting policies which could have a material adverse effect on the level of the Issuer's advances.

Any reduction in the rate of interest on loans, or any requirement to re-arrange or write off loans, could have significant repercussions for the South African banking industry as a whole and, in particular, such events (as well as any material reduction in the level of the Issuer's advances) could have significant repercussions for the Issuer's ability to continue to pursue its business model successfully and profitably given the historic concentration of the Issuer'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.

*Collection methodologies*

Due to concerns about debit orders processed to bank accounts without permission (a mandate) from consumers as well as concerns from banks that their customers are disputing debit orders despite giving legal and valid

mandates, in 2013 the SARB requested the Payment Association of South Africa (which includes the South African banks) to find a solution, resulting in a new type of debit order, called DebiCheck. Through this new debit order system, a debit order will only be processed to a consumer's account if the mandate for such a debit order has been confirmed electronically and on a once-off basis by the consumer. It is anticipated that this system will reduce the number of invalid debit orders being processed as well as the number of consumer disputes where valid mandates are in place.

DebiCheck has been implemented in a phased approach, over a period which began in the latter part of 2017. Since then, banks, including the Issuer, have progressively converted to the new system. It is intended that DebiCheck will replace the non-authenticated early debit order system (referred to as NAEDO and which will be discontinued entirely in respect of all collections in November 2021) utilised by the Issuer for the majority of its collections. Under NAEDO, the recovery tracking (being the ability to track the relevant debtor bank accounts for a number of days for available funds in order to collect missed debit order payments) was a previous maximum number of 32 days, but this is reduced to 10 days under the DebiCheck system.

The introduction of the DebiCheck system and the migration from the NAEDO system may have significant implications for the Issuer's credit risk appetite, due not only to the reduced recovery tracking inherent in the DebiCheck system, but also the challenges in initiating the DebiCheck authentication process (in which the customer electronically agrees to the debit order) in a collections environment. To the extent that the final system requires or permits re-authentication of a debit order after a loan has been disbursed, until the Issuer has achieved a situation where a significant number of its loan customers also hold transactional banking accounts with the Issuer (which is already the case for many of the other South African retail banks operating in the unsecured lending market) this re-authentication process is likely to be more difficult for the Issuer as compared to such other retail banks.

Any significant changes in the collection methodologies, including those already mentioned above, could adversely impact the Issuer's ability to collect from customer accounts and could have a negative impact on the level of provisioning and risk appetite of the Issuer.

*Retail distribution review*

The Retail Distribution Review ("**RDR**") will implement 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 and which impact, generally:

(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, including addressing 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.

The RDR has necessitated 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 the RDR is fully 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 (such as Guardrisk) to ensure the Issuer as their agent is acting in the best interest of customers.

. Implementation of such reforms 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.

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

The NCR is continuously monitoring, reviewing and investigating lenders to ensure compliance with the NCA.

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 regulators and courts is subject to a number of uncertainties and, therefore, the outcome of their interpretation by regulators and the courts in South Africa is not predictable. These regulators and 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.

***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 prudential ratios and requirements. 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*" above. The Issuer's ability to maintain its ratios and other prudential requirements 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 ABH 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.

Although the Issuer's capitalisation currently exceeds all applicable regulatory requirements at the Information Date and/or expected in the medium term, the Issuer may need to raise additional capital in the future. For the most recent information on the capital and liquidity adequacy of the Bank, see the Pillar 3 Disclosures.

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 and could also impact the Issuer negatively if it was subject to regulatory action as a result of being unable to raise the required amount of regulatory capital. See also "*Funding and Liquidity Risk – The Issuer is exposed to interest rate risk*".

## HUMAN CAPITAL RISK

***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. 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, may delay or adversely affect the ability of the Issuer to 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.

For further information in this regard see "*Description of the Issuer –Business of the Issuer - Human Capital (people)"*.

## OPERATIONAL AND BUSINESS RISK

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

Operational risk is defined by the Issuer as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. Operational risk is generally not taken intentionally by organisations. Rather, operational risk is inherent within all organisations and is a standard by-product of running a bank.

The Issuer is exposed to operational risk which includes 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 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.

***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 Boards 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 a number of years, 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 as will the other policy decisions recently taken by government such as the restructuring of economically critical state-owned enterprises.

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.

The Issuer has a recognition agreement with SASBO (The Finance Union) as in excess of 50% of its employees are members of this trade union. The Issuer may incur increased labour costs or losses due to increased industrial action by its employees.

Any of these matters could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

***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 traditional South African banks that provide unsecured lending and transactional and digital banking, such as Capitec Bank Holdings Limited, Absa Bank Limited, FirstRand Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited, as well as other relevant non-bank unsecured lenders. Many of these institutions have greater financial and other resources than the Issuer. In addition, there are major non-bank and insurer credit providers that compete in the unsecured lending market with brands and products that are similar to the Issuer's loan product offerings. More recently, with the increasing importance of digital platforms and optimal use of data, significant competition is faced from new digital transaction banks and financial technology companies entering the market which seek to disintermediate the product offerings of traditional banks. 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.

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 its longer-term objective of building a sustainable diversified retail bank.

***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 in South Africa and its Retail Deposit and transactional banking activities are located only in South Africa. 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.

Any of these actual or perceived legal, political, social and socio-economic factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes.

Factors such as subdued economic growth, rising inflation, interest rates, foreign exchange rate movements and currency controls could affect an investment in the Notes in a manner that is difficult to predict.

The South African macro environment is characterised by low private sector investment, weak employment growth, historically high levels of debt and pressure on domestic demand. Longer-term structural changes are dependent on structural changes in the economy, with these changes often being extremely challenging, notwithstanding the stated intentions of the South African government. The scale of the financial and operational challenges faced by Eskom, the South African electricity public utility, is substantial to an extent that it could materially impact the economic recovery plan. Therefore, there are economic and socio-economic challenges that continue to face South Africa.

Any adverse changes affecting the South African economy or increases in political instability (whether actual or perceived) 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 relatively modest incomes, are particularly affected by macroeconomic factors, such as the impact of the Covid-19 pandemic including salary reductions and job losses, inflation (in particular fuel and food price 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.

If the rate of economic growth in South Africa slows or other macroeconomic factors do not perform as expected, the Issuer's customers could 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.

***The Issuer is exposed to the prevailing global economic conditions.***

A material deterioration in the global economic conditions is likely to have a negative impact on the macroeconomic conditions in South Africa. Through current and capital accounts of the balance of payments, South Africa is exposed to the global economy. South Africa's exports are impacted by the economic activity of some of the world's largest economies, including China, the US and Europe. Commodity prices and the Rand exchange rate also have a material impact on South African exports. The South African economy is thus reliant on foreign capital flow and the country has been the recipient of foreign capital through the domestic bond and equity markets over the last few years.

A decline in international trade or in foreign inflows to South Africa may result in currency weakness, higher interest rates, an increase in bond yields and weaker economic growth. Any adverse changes affecting the South African economy could have a material adverse effect on the Issuer's customers and on the Issuer's business, financial condition, results of operations and prospects, for example by reducing demand for its products and services, increasing customer defaults, increasing the Issuer's cost of funding or even making such funding unavailable to it.

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

The Issuer is a direct, wholly-owned subsidiary of ABH, and all of the ordinary shares in ABH are owned by the Consortium as at the Information Date, 25% being held by the Participating Banks, 25% by the GEPF and

50 % by the 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 (but such disposal is subject to the prior consent or deemed consent of the SARB, for so long as the SARB is also a shareholder of ABH).

In February 2020, the SARB published a request for proposal to appoint a transaction advisor relating to the future sale of its shareholding in ABH, which it acquired as a result of the Restructuring. In this regard, the SARB had publically stated that it was never its intention to hold this equity stake indefinitely, particularly because its shareholding creates a potential conflict of interest between its role as a regulator of the Issuer and as a major shareholder of ABH. The SARB indicated that it anticipates that the disposal process will be completed within 18 – 24 months after the identification of a suitable buyer.

If SARB and any other 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 agreed to do in connection with the Restructuring. There is further no guarantee that any new controlling shareholders, or the members of the Consortium, would be willing to 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 the SARB or any or all of the other members of the Consortium could be perceived as a lack of confidence 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 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 generally insured, although customers are required to take out credit life insurance, and in most instances take out credit life insurance offered by the Bank which is underwritten by Guardrisk. See "*Description of the Issuer – Business of the Issuer – Credit Life Insurance*" for further detail.

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. Furthermore, the level of the Issuer's debt recovery rates in respect of customers' credit life insurance covered by Guardrisk insurance will depend on the ability of Guardrisk to meet its obligations under the relevant insurance policies. This underwriting risk in the insurance portfolio in respect of loans granted by the Issuer is retained within the cell captive arrangement (described below in "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*"). 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.

Changes in financial reporting standards can be difficult to predict and could materially impact how the Issuer records and reports its financial condition and results of operations.

***The Issuer is exposed to market risk.***

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, which is caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables. The Issuer's key market risks are foreign currency risk and interest rate risk in its banking book.

With regard to foreign currency risk, the Issuer's liabilities as at the information date include two series of CHF denominated Notes (which are fixed-rate senior debt instruments) issued under the EMTN Programme, in respect of which the final maturity date is 22 April 2022. These CHF Notes are hedged by a combination of derivative hedging trades and foreign currency deposits. As the yields on the foreign currency hedging assets are typically less than the interest paid on the liabilities, an additional foreign currency holding is required to hedge all future cash flows.

Banking book-related interest rate risk exposure principally includes managing the potential adverse effect of interest rate movements on banking book earnings. The Issuer is exposed to interest rate risk in the banking book. The composition of the Issuer's balance sheet, comprising the major categories of fixed and floating-rate instruments as listed below, results in re-pricing and maturity mismatches:

- its loan portfolio is comprised of fixed-rate personal loans and variable-rate credit cards;
- its excess cash is deposited at other banks earning either prime- or JIBAR-linked (variable-rate) rate returns on call balances and fixed rates on term deposits;
- its liability portfolio is comprised of fixed-rate funding and variable-rate instruments;
- it has a growing Retail Deposit portfolio that comprises predominantly fixed-rate term and notice deposits up to 5 years.

The Issuer does not have a significant risk appetite for interest rate risk in the banking book and manages this on an overall portfolio basis. The Issuer does not actively manage its prime rate /JIBAR basis risk in respect of the prime-linked credit card portfolio against its JIBAR-linked floating rate liabilities and is therefore exposed to this risk.

Any adverse movements in the market could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

***The Issuer may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and have a material adverse effect on it***

The Issuer is required to comply with applicable anti-money laundering and anti-terrorism laws in South Africa. FICA and the Money Laundering and Terrorist Financing Control Regulations of South Africa require the Issuer, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and unusual transactions to the applicable regulatory authorities. While the Issuer has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and terrorist financing activity, such policies and procedures may not completely eliminate instances in which the Issuer may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent that the Issuer may fail to fully comply with applicable laws and regulations, various regulatory authorities to which it reports have the authority to impose fines and other penalties. In addition, the Issuer could suffer reputational harm if clients are found to have used it for money laundering or illegal purposes.

**MODEL RISK**

***The Issuer's models may provide an inaccurate or invalid outcome.***

The use of models invariably presents model risk, which is the potential for adverse consequences from decisions based on inappropriate assumptions in a model, incorrect or misused model outputs and reports.

Model risk for the Issuer arises from three primary sources:

- data uncertainty, which may arise due to incomplete, poor quality or limited volumes of data;
- uncertainty about the accuracy of the estimated risk parameters used in the risk and capital calculations; and
- model methodology uncertainty, which is the risk that the methodology utilised may not accurately measure the relevant risk.

Model risk exists throughout the Issuer due to the significant number of models in use. These models vary in their level of complexity and materiality to the Issuer. The Issuer is guided in this regard by the governance standard provided in its model risk policy, which provides guidance on the definition and categorisation of models by materiality which informs the level of minimum governance required for the continued use of models based on the category to which they belong. The most critical and material of these models are regarded as those that:

- influence management decisions;
- influence client selection and pricing decisions; and
- generate publicly disclosed information (such as annual and interim financial statements, and the ABH Integrated Report).

The areas within the Issuer which are affected by significant model risk include the credit, collections, finance, treasury and balance sheet management functions, which are primarily responsible for informing management and other stakeholders of the related model risk. Credit risk however remains the main focus for the MRC (which is a subcommittee of the RCMC responsible for the governance around models and model development), as the model risk in credit risk models is significantly higher than the other categories. Although the MRC has been established to review all material models and their assumptions and the Issuer has adopted and is guided by a model risk policy, which not only categorises models by materiality but also defines modelling standards, and there is independent validation of key controls, the Issuer has assessed that improvement is still required in the mitigation of its model risk, given the highly technical nature of its credit models in particular.

Notwithstanding controls over the implementation of new models and/or material changes to models are utilised in the development, implementation, and application of models utilised by the Issuer, inadequate model risk management and mitigation can lead to financial loss, poor business and strategic decision making, or damage to the Issuer’s reputation.

**REPUTATIONAL RISK**

***The Issuer’s reputation in the wholesale capital markets has been adversely affected by the Curatorship and could be further negatively affected.***

An entity’s reputation is one of its most important assets. The Issuer’s ability to attract and retain customers, staff and funding and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brand is damaged or 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.

Negative publicity in South Africa as a result of the Curatorship, RDS’ various credit downgrades prior to the Curatorship, disappointing financial results of RDS and the need for restatement of previously released financial statements damaged RDS’ reputation.

While the Issuer is a new legal entity that acquired the assets and restructured liabilities as a result of the Restructuring of RDS, reputational issues related to RDS do still negatively impact the Issuer, albeit to an increasingly lessening degree. There is also a link between reputational risk and liquidity risk. The ability of the

Issuer to attract customers and fund providers alike is dependent on maintaining a good reputation amongst clients and fund providers.

There can be no assurance that the Issuer will be able to address the remaining damage to its reputation and competitive position resulting from the Curatorship and the circumstances leading up to it.

Any deterioration of the Issuer's reputation 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. See also "*The Issuer faces significant competition, which may increase in the future and have an adverse impact on its business*".

## RISK MANAGEMENT RISK

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

The management of strategic, liquidity, funding, specific banking-related risks such as cyber risk, information technology, credit, legal and regulatory risks, human capital, operational, reputational and financial risks requires, among other things, a robust Enterprise Risk Management ("**ERM**") 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. (For more information on the Issuer's risk management framework, see the most recent Annual Governance Report of the Issuer).

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 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 RELATING TO THE NOTES AND MARKETS GENERALLY

***The Notes may not be a suitable investment for all investors.***

Each prospective investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each prospective investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in the Relevant Programme Memorandum or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such an investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the prospective investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as standalone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A prospective investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the prospective investor's overall investment portfolio.

***Investments, such as the Notes, in emerging markets, including South Africa, are subject to greater risk than investments in more developed markets.***

Investors in emerging markets such as South Africa 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 in the Notes should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment in the Notes is appropriate. Generally, investment in emerging markets such as South Africa 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 set out the motivation, principles and policy proposals for a strengthened framework for the Resolution of designated financial institutions in South Africa. The document included 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.

In in August 2020, a draft Financial Sector Laws Amendment Bill, 2020 was tabled in parliament, which proposes to amend the FSR Act to include the legislative framework for the orderly Resolution of banks, systemically important non-bank financial institutions and holding companies of banks or systemically important non-bank financial institutions that are designated by the Governor of the SARB as systemically important.

In this Bill, it is proposed that the SARB is granted the power to cancel or issue equity shares or write-down or write-off creditors' claims (which, for the avoidance of doubt, would include claims under the Tier 2 Notes), provided no such action may be taken which would result in the relevant shareholder or creditor receiving less than the shareholder or creditor would have received if the designated institution had been wound up. Under the proposed changes, the SARB would also be entitled to perform its Resolution powers in relation to a liability of the designated institution in a way that results in the liability being substituted with a shareholding in the designated institution.

If statutory bail-in is adopted in South Africa, the exercise of this Resolution power in respect of the Issuer 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***" below.

***Lack of liquidity in secondary markets for the Notes.***

A prospective investor of the Notes should be aware of the prevailing and widely reported global credit market conditions (which continue at the Information Date), whereby there is a general lack of liquidity in the secondary

markets for instruments similar to the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. 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. Illiquidity may have a severely adverse effect on the market value of the Notes.

***There is no active trading market for the Notes.***

Notes issued under the Programme will be new securities, 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. In either case the Notes may not be widely distributed and there may be no active trading market. 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 Interest Rate Market of the JSE 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, curatorship or Resolution 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 prospective 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.

***Because Uncertificated Notes are held in the CSD, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.***

Notes issued under the Programme which are listed on the Interest Rate Market of the JSE or such other or additional Financial Exchange and/or held in the CSD may, subject to applicable laws and the Applicable Procedures, be issued in uncertificated form. Unlisted Notes may also be held in the CSD in uncertificated form. Uncertificated Notes held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD (in the circumstances described in the Terms and Conditions, investors will be entitled to receive Individual Certificates). The CSD will maintain records of the Beneficial Interests in Notes issued in uncertificated form, which are held in the CSD (whether such Uncertificated Notes are listed or unlisted). Investors will be able to trade their Beneficial Interests only through the CSD and in accordance with the Applicable Procedures.

Payments of principal and/or interest in respect of Uncertificated Notes will be made to the CSD and/or the Participants in accordance with the Applicable Procedures and the Issuer will discharge its payment obligations under the Uncertificated Notes by making payments to or to the order of the CSD and/or the Participants for distribution to their account holders. A holder of an Uncertificated Notes or Beneficial Interest in Uncertificated Notes, whether listed or unlisted, must rely on the procedures of the CSD to receive payments under the relevant Notes. Each investor shown in the records of the CSD and/or the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for his share of each payment so made by the Issuer to the registered holder of such Uncertificated Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, such Uncertificated Notes or Beneficial Interests.

Holders of Uncertificated Notes or Beneficial Interests in Uncertificated Notes will exercise their rights to vote in respect of the relevant Notes in accordance with the Applicable Procedures.

***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.

## 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 prospective investors. Set out below is a description of certain such features:

***Index-Linked Notes are subject to additional market risks.***

The Issuer may issue Notes the terms of which provide for interest or principal payable in respect of such Notes to be determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). Prospective investors should be aware that:

(a) the market price of such Notes may be volatile;

(b) no interest may be payable on such Notes;

(c) the amount of principal payable at redemption may be less than the Nominal Amount of such Notes or even zero;

(d) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(e) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

(f) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

***Variable rate notes with a multiplier or other leverage factor are subject to increased volatility.***

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

***Fixed/Floating Rate Notes are subject to additional risks.***

Fixed/Floating Rate Notes may, if so specified in the Applicable Pricing Supplement, 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. Prospective 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. (See *"Capitalisation and*

*Indebtedness - Capital Adequacy and Liquidity in the Issuer"* for more information regarding the pre-conditions to the early redemption of any Tier 2 Notes.)

***The Notes may be repurchased prior to maturity.***

The Issuer has the right to repurchase Senior Notes in any particular Tranche prior to their maturity and such Notes may, subject to restrictions of any Applicable Law, be held, resold or at the option of the Issuer, cancelled. Such repurchases may occur on a private, willing-buyer, willing-seller basis or on a public offer basis to all holders of a particular Series of Notes. Such repurchases may adversely impact liquidity of the relevant Series of Notes, which may have an adverse impact on secondary trades.

A Tier 2 Note 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.

***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 certificated 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, unless otherwise specified in the Applicable Pricing Supplement, be construed in accordance with South African law in effect the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to South African law or administrative practice after the Information Date. Changes in 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 5.2 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, into Resolution 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, Resolution or curatorship of the Issuer.

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

If the Issuer is wound-up or dissolved or put into liquidation, Resolution 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, Resolution 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, Resolution 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, Resolution 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 additional 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(12) 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. Since 2012, the SARB has provided clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in various guidance notes and circulars, with only Guidance Note 6 of 2017 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) ("**Guidance Note 6**") remaining effective at the Information Date. In Guidance Note 6, SARB indicated that it, together with National Treasury, was 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, in August 2020, a Financial Sector Laws Amendment Bill, 2020 was table in parliament, which proposes to provide the legislative framework for the orderly Resolution of banks and other systemically important institutions. In this Bill, it is proposed that the SARB is granted the power to cancel or issue equity shares or write-down or write-off creditors' claims (which, for the avoidance of doubt, would include claims under the tier 2 capital instruments), provided no such action may be taken which would result in the relevant shareholder or creditor receiving less than the shareholder or creditor would have received if the designated institution had been wound up.

It is uncertain whether these legislative changes are intended to constitute the long-anticipated SLAR or, if they are, whether the proposed legislative changes in effect constitute laws that require relevant tier 1 and tier 2 instruments to be written off upon the occurrence of a trigger event or otherwise require such instruments to fully absorb losses before tax payers are exposed to loss (as contemplated in (a) above).

Until this is clarified, reliance will continue to be placed on Guidance Note 6, which remains effective. Guidance Note 6 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 in the Prudential Authority's discretion, as envisaged in Regulation 38(12)(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 requirement to provide for write-off and/or Conversion in the contractual terms and conditions of a tier 2 instrument, paragraph 6.3 of Guidance Note 6 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.

In Guidance Note 6, the Relevant Regulator has advised that it is foreseen that once the Statutory Loss Absorption Regime 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, unless the Issuer elects to have the contractual terms replaced with the Statutory Loss Absorption Regime as contemplated above, the contractual terms and conditions under which Notes are issued are likely to remain in force for the capital instruments issued prior to the introduction of the relevant statutory legislation. Despite this, the wording of Guidance Note 6 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.

However, if and to the extent a Statutory Loss Absorption Regime is implemented in South Africa so as to apply to tier 2 instruments already in issue on a compulsory basis, such tier 2 instruments will be subject to the provisions of South African law including any relevant requirements of the Statutory Loss Absorption Regime, as implemented in South Africa.

Subject to the implementation and content of the Statutory Loss Absorption Regime, Tier 2 Notes will be subject to write off or Conversion (as specified in respect of the relevant Notes) 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.

It is important to note that in terms of Guidance Note 6:

(a) tier 1 instruments are likely to be converted or written down prior to the Conversion or write-off of any tier 2 instruments;

(b) the write off or Conversion of tier 2 instruments will only occur to the extent deemed by the Relevant Regulator as necessary to ensure that the bank is viable, as specified in writing by the Relevant Regulator, and

(c) in the event of a write off of tier 2 instruments, such write-off shall be permanent, with no possibility of write-up once the Issuer becomes viable again.

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.

***Payment of any amounts of principal and interest in respect of Tier 2 Notes will be cancelled or written off upon the occurrence of a Trigger Event.***

Upon the occurrence of a Trigger Event, Tier 2 Notes will be (i) cancelled (in the case of a write off in whole) or written off in part on a *pro rata* basis (in the case of a write off in part) or (ii) converted (in whole or in part, as the case may be) in each case in accordance with the applicable write off or Conversion provisions. Further to such conversion, cancellation or write off, Tier 2 Noteholders will no longer have any rights against the Issuer with respect to any amounts cancelled or written off and the Issuer shall not be obliged to pay compensation in any form to Tier 2 Noteholders. Furthermore, any such cancellation or write off will not constitute an Event of Default or any other breach of the Issuer's obligations under the Terms and Conditions of any Tier 2 Notes.

A Trigger Event will occur when the Relevant Regulator has notified the Issuer that it has determined that a "trigger event" as specified in the Capital Regulations has occurred. The occurrence of a Trigger Event is therefore inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control.

***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.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Information Memorandum and the documents incorporated by reference herein are not historical facts but constitute "forward-looking statements". This Information Memorandum contains certain forward-looking statements in various sections, including, without limitation, under the headings in this Information Memorandum of "***Risk Factors***", "***Capitalisation and Indebtedness***" and "***Description of the Issuer***". 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 Information Memorandum) 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. These include changes in the external environment and to prevailing market conditions, including, as an example, the manner in which the Covid-19 pandemic could further unfold in South Africa and globally.

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 Information Date, being the date on which they are made. 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 Information Memorandum (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 Information Memorandum as required by, and in accordance with, the JSE Debt Listings Requirements. 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.

Should the Issuer make a forward-looking statement that constitutes a profit forecast or estimate, as contemplated in JSE Debt Listings Requirements, the Issuer will obtain the relevant sign-off by the auditors or include the relevant statement relating thereto as contemplated in terms of JSE Debt Listings Requirements.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

**Fiscal and calendar years**

The Issuer's financial year ends on 30 September. In this Information Memorandum, in order to distinguish between financial years and calendar years, the following conventions are adopted: (i) calendar years are referred to as "calendar year [YEAR]" or simply "[YEAR]" and (ii) 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 2020 is referred to as Financial Year 2020 or FY20.

**Presentation of Financial Information**

In this Information Memorandum, all financial information referred to is presented in Rand which is the functional currency applicable to the Issuer.

The Relevant Programme Memorandum incorporates by reference historical.

***Historical Financial Information***

Investors and prospective investors should refer to the most recent financial statements and ABH Integrated Report available at the relevant time (which are incorporated by reference into the Relevant Programme Memorandum). These financial statements and ABH Integrated Reports are available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information" "Financial Reporting"*** path in such website). Investors and prospective investors should however disregard any information in any ABH Integrated Report relating to the insurance operations and insurance income of the ABH Group as these do not fall within the income or assets of the Issuer.

**Currency**

In this Information Memorandum, 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;
- "**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%.

**Market Data**

In certain instances in this Information Memorandum, 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. 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*" and "*Description of the Issuer*" in this Information Memorandum from the third-party sources.

The Issuer takes responsibility for the accurate reparoduction 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. Nevertheless, prospective investors are advised 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.

## CURATORSHIP OF OLD AFRICAN BANK, SUMMARY OF RESTRUCTURING AND SUMMARY OF POST-RESTRUCTURING

The Issuer acquired the Good Bank Business from RDS on 4 April 2016. It is for this reason that a short description of the Curatorship, the events leading to the Curatorship and the Restructuring is set out below.

## CURATORSHIP

### Introduction

Prior to the Transaction Effective Date, RDS specialised in the provision of unsecured lending in the form of personal loans and credit cards to middle- and lower-income customers in South Africa.

RDS was placed under Curatorship on 10 August 2014 following 12 to 18 months of increased credit impairments with a resultant decrease in profitability and erosion of the RDS capital base leading to the deterioration in the trust of funders of RDS and hence a deterioration of the cash liquidity available to RDS.

## THE RESTRUCTURING

After monitoring the affairs of RDS with increasing focus in the months preceding Curatorship, in August 2014 the SARB concluded that it was in the best interests of RDS' creditors, staff members and the South African banking and financial services sector as a whole, to seek a resolution for RDS through Curatorship that would enable, if possible, the business of RDS to continue, which led to the Restructuring. The principal terms of the Restructuring implemented on the Transaction Effective Date can be summarised as follows:

- **ABH Group**: the ABH Group was established and capitalised in the amount of ZAR10 billion as set out in "*Description of the Issuer – Corporate Structure and Shareholding*". As part of the ABH Group, the Issuer was established as a newly registered bank under the Banks Act to acquire the Good Bank Business.
- **Exchange Offers**: On 2 February 2016, RDS launched a series of senior exchange offers to its senior funders (and to certain other senior creditors) and a series of subordinated exchange offers to its subordinated funders. Due to the overwhelming support of such funders and creditors to these Exchange Offers, all of such funders and creditors of RDS either agreed to the Exchange Offers or were bound by extraordinary resolutions of the relevant classes of funders or creditors to exchange their existing debt in RDS for, *inter alia*, New Debt Instruments in the Issuer.
- **Transfer of Good Bank Business**: The Issuer acquired the Good Bank Business from RDS on the Transaction Effective Date. This transaction involved, inter alia, (i) the transfer of the Acquired Book; (ii) the transfer of certain operational assets and cash; (iii) the assumption by the Issuer of the obligations of RDS in respect of RDS Retail Deposits and certain operational liabilities; and (iv) the issue by the Issuer of New Debt Instruments to RDS in consideration for the Good Bank Business. After implementation of the sale (and particularly the issue of the New Debt Instruments to RDS), RDS was in a position to and did discharge its settlement obligations in terms of the Exchange Offers by, *inter alia*, transferring the New Debt Instruments to its funders and creditors who were holders of existing debt in RDS. As a result of RDS being placed in Curatorship, debt holder interest and capital payments were suspended from the Curatorship Date to the Transaction Effective Date (plus two further years, being an effective extension period of three years and eight months). This allowed a significant cash position to be built up during the Curatorship. This cash was transferred to the Issuer.

## POST-RESTRUCTURING

As a condition to its registration as a bank under the Banks Act, the SARB required that the Issuer should demonstrate plans and steps to diversify its business model within two years from the Transaction Effective Date.

Pursuant to this, during 2016 the ABH Group began the process of changing its operating model from a relatively manual, branch-based, information technology enabled model to a digitally-enabled operating model to become

a predominantly digital bank, supported where appropriate by a fit for purpose branch-based infrastructure capable of delivering transactional banking and other products in addition to unsecured lending products. The ability to implement the new strategy was initially hampered by the need to look back and fix a number of fundamental problems inherited by the Issuer from RDS and resulted in substantial investment by the Issuer into stabilising the Issuer's legacy IT systems, bringing software licences up to date and addressing outdated networks and at the same time undertaking a 'Big Data' investment as part of the transition to transactional banking, incorporating an omni-channel approach to customer interaction as well as a complete overhaul of its 'digital' channel.

During May 2019, the Issuer launched its transactional banking offering, known as the *MyWORLD* account. (See the section "*Description of the Issuer – Delivering on the Strategy"* and *"Description of the Issuer – Business of the Issuer – Transactional Banking"*. In addition, the most recent and detailed financial information regarding the transactional banking product of the Issuer at any time will be found in the most recently published financial statements of the Issuer and ABH Integrated Report.

The Issuer has actively diversified its funding base, targeting Retail Deposits of up to five years. (See "*Capitalisation and Indebtedness - Primary Sources of Funding and Liquidity for the Issuer – Retail Deposits"* and the most recent and detailed information regarding the funding base of the Issuer will be found in the most recently published financial statements of the Issuer and ABH Integrated Report on the website of the Issuer.)

On 4 September 2020, the Issuer entered into shareholder support and assistance arrangements with the shareholders of ABH in terms of which the ABH shareholders have undertaken to provide certain support facilities to the Issuer over a period of three years and four months, commencing 1 December 2020 and concluding on 31 March 2024, in proportion to their shareholdings, up to a maximum cumulative amount of ZAR8 billion over this period. The conclusion of these arrangements is a significant milestone for the Issuer because the intention of the arrangements is to facilitate the Issuer's reintegration into the debt capital markets.

The Curatorship of RDS also necessitated a rigorous examination of the governance and risk management structures and processes established within the ABH Group. The focus of this process was to clearly and comprehensively define the ABH Group's risk appetite and risk parameters. (See the Annual Governance Report for further detail about risk management structures established in the ABH Group as well as the section "*Description of the Issuer – Risk Management"*.)

Before the Curatorship Date, RDS had already reduced its credit risk appetite by way of more conservative credit criteria, thereby decreasing its loan disbursement volumes. This trend continued during Curatorship. The Issuer implemented a reduced risk appetite during September 2016, which was incorporated into a new refined scorecard in August 2017. A further significant scorecard recalibration occurred in October 2018 and again at the end of August 2019 due to a weakened macro-economic environment. Anticipating the negative impacts of an extended national lockdown due to Covid-19 on the financial well-being of consumers, the Issuer implemented further credit-tightening measures in April and August 2020. This reduced risk appetite has resulted in the Issuer lending more to lower-risk clients. A key outcome of the more recently implemented credit-tightening measures was reduced disbursement levels to customers. (For the most recent and more detailed information regarding the most recent credit risk policies applied by the Issuer as well as the impact of those policies on disbursements, loan size and loan term, Investors and prospective investors should refer to the most recent ABH Integrated Report at the relevant time.)

In addition to the reduction of credit risk appetite, provisioning methodologies of the Issuer have been reviewed and improved to reflect credit impairments more accurately and conservatively. Advances are considered impaired if there is objective evidence of impairment as a result of events that occurred after the initial asset recognition. The Issuer conservatively applies the principle of objective evidence and views "one cent-one day" late payment as objective evidence of impairment. (See "*Description of the Issuer – Risk Management – Credit Risk*")

The Issuer has also focused on rebuilding its brand trust with its investors, but acknowledges that this can only truly be achieved through sound long-term performance, strong communication, proactive investor relations and strong governance and ethical practices.

## CAPITALISATION AND INDEBTEDNESS

### CAPITAL ADEQUACY AND LIQUIDITY IN THE ISSUER

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, the Banks Act and the Regulations Relating to Banks.

A bank's capital and liquidity are also 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.

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 Issuer has not issued any additional tier 1 capital.

ZAR1.485 billion of Tier 2 debt instruments (the "**Tier 2 Notes**") was issued by the Issuer on the Transaction Effective Date under this Programme and constitutes Tier 2 Capital. Such Tier 2 Notes:

- are compulsorily convertible into ABH 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(12)(a)(i) of the Regulations Relating to Banks; and
- have a maturity of 10 years from the Transaction Effective Date and are callable by the Issuer on any business day on or after 5 April 2021, with the prior written approval of the Relevant Regulator which will only be considered if the Issuer can satisfy one of the following requirements:
    - the Issuer concurrently replaces the Tier 2 Notes with capital of similar or better quality and the replacement of capital is done at conditions that are sustainable for/with the income capacity of the Issuer; **or**
    - the Issuer demonstrates to the satisfaction of the Relevant Regulator that its capital position shall be well above the relevant specified minimum capital requirements after the call option is exercised,

  and, in addition, the Issuer would need to demonstrate to the Relevant Regulator that its capital adequacy ratio is at least one percentage point higher than the regulatory required percentage after the repayment of the Tier 2 Notes without relying on any new capital issues.

Basel III also 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 became effective in South Africa on 1 January 2018 and aims to promote medium and long-term funding of banks' assets and activities.

For the most recent information on the capital adequacy and liquidity ratios of the Issuer, see the Pillar 3 Disclosures.

### PRIMARY SOURCES OF FUNDING AND LIQUIDITY FOR THE ISSUER

Information regarding the funding and liquidity of the Issuer, and maturity profile of the Issuer's funding liabilities will be found in the most recently published financial statements of the Issuer and ABH Integrated Report available at the relevant time. These financial statements and the ABH Integrated Reports are available on the

website of the Issuer (www.africanbank.co.za under the *"Investors" – "Corporate Information" "Financial Reporting"* path in such website).

As at the Information Date, funding is primarily sourced through the following channels.

**Retail Deposits**

The Issuer offers investment products to the public which, at the Information Date, consist of:

- fixed deposits of between 3 and 60 months;
- 7, 32 and 90-day notice deposits;
- The "Access Accumulator" which allows clients to invest their money with the ability to access it, in full or partially, with interest increasing monthly over a maximum term of 24 months; and
- A tax-free Investment product.

While the Retail Deposit business is still relatively new to the Bank, the Bank has achieved success in growing its Retail Deposit book. This growth in Retail Deposits is aligned with the Issuer's strategy to diversify its funding base. The Issuer expects this trend to continue, but investors and prospective investors should refer to the most recently published financial statements of the Issuer and ABH Integrated Report for the latest information regarding the Issuer's funding.

**Notes**

In addition to DMTNs issued under the Programme, EMTNs are also issued by the Issuer. As part of the Restructuring, the Issuer also established a US$6 billion Euro Medium Term Note Programme ("the **EMTN Programme**"). 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 EMTN 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 certain encumbrances other than those permitted under the EMTN Programme. The EMTN Programme documents contain customary events of default, including, but not limited to, non-payment, breach of other obligations set out in the agreements, failure to obtain any necessary consent, 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.

Investors and prospective investors should refer to the most recently published financial statements of the Issuer and ABH Integrated Report for the latest information regarding the Issuer's funding.

**Bilateral Corporate Deposits**

Pursuant to the Restructuring, the Issuer created a set of standard common terms and conditions to 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 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 has terms and conditions which are specific to their category. Investors and prospective investors should refer to the most

recently published financial statements of the Issuer and ABH Integrated Report for the latest information regarding the Issuer's funding.

**ABH and AIG Funding**

Since the establishment of the Cell Captive arrangement in early 2016 (see "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*"), when AIG has received dividends on the Cell Captive Shares, it has predominantly distributed these to ABH as its shareholder. ABH has, in turn, elected to either deposit distributions it receives from AIG with the Issuer, in all or part, or in other liquid investments. When it has elected to deposit any such amounts in the Issuer, it does so on arms-length commercial terms as a corporate deposit. From time to time, AIG has invested available funds in the Issuer on arms-length commercial terms, pending a declaration of such funds as a dividend to ABH.

ABH is not obliged to invest dividends, if any, it receives from AIG in the Issuer. Likewise, AIG is not obliged to invest dividends, if any, it receives on the Cell Captive Shares in the Issuer.

## Shareholder Liquidity Support

On 4 September 2020, the Issuer entered into shareholder support and assistance arrangements (the 'support arrangements') with the shareholders of ABH (see "*Description of the Issuer*" – "*Corporate Structure and Shareholding"*)

The Bank's Board recognised that, to build a robust and sustainable long-term operating model, it needed to re-establish itself as a reliable and accepted counterparty in the domestic wholesale funding market. This support arrangement will allow the Issuer to continue focusing on the delivery of its long term intention to diversify its funding base by increasing retail deposits while maintaining a commensurate level of wholesale funding.

In terms of the Support Arrangements, the ABH shareholders have undertaken to provide certain support facilities to the Issuer over a period of three years and four months, commencing 1 December 2020 and concluding on 31 March 2024 (the "Support Period"), in proportion to their shareholdings, up to a maximum cumulative amount of ZAR8 billion over the Support Period.

During the Support Period and subject to the specific requirements hereunder, the Issuer will be entitled, but not obliged, to call for support and assistance from the Shareholders in respect of issuances of listed ZAR denominated fixed-rate or floating-rate unsecured Senior Notes with a maximum term of three years ("Corporate Bonds") whenever the Issuer elects to formally access the wholesale funding markets during the Support Period provided that the aggregate support available from Shareholders will not exceed ZAR2 billion in the period from 1 December 2020 to 31 March 2021 and ZAR2 billion in each of the three 12-month periods thereafter, commencing 1 April 2021 to 31 March 2024.

In respect of any supported issuance of Corporate Bonds by the Issuer, any shortfall will be taken up by the Shareholders, other than the SARB, subscribing for Corporate Bonds alongside the rest of the market investors, in their shareholding proportions, with the SARB providing assistance to the Issuer through a collateralised loan to the Issuer.

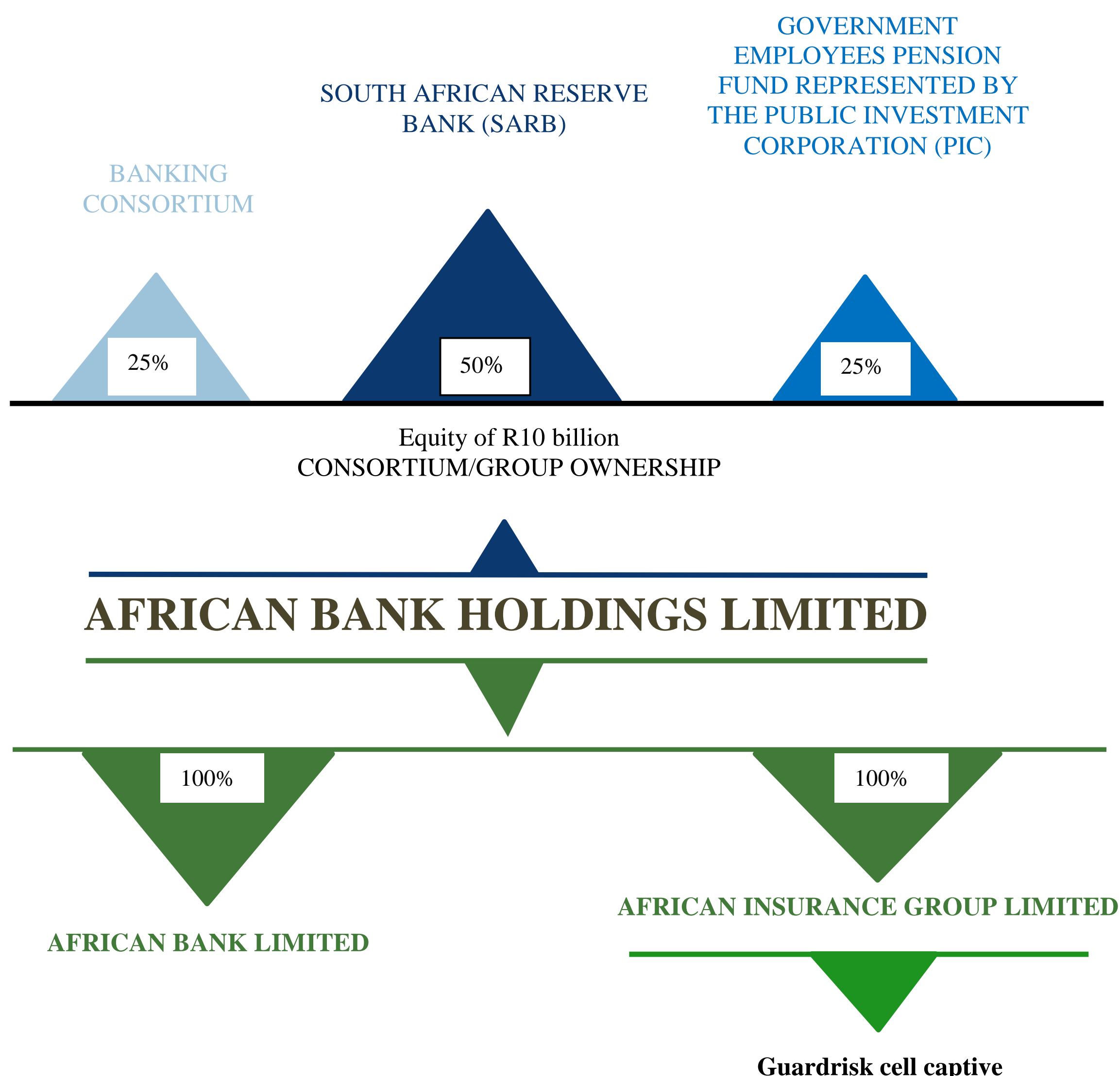
The loans advanced to the Issuer by SARB will be secured by a cession in security to the SARB of a portion of the Issuer's customer loan portfolio, with an initial cover ratio, based on the net asset value of customer loans, of 111%. In accordance with banking regulations, the Issuer will deduct from its regulatory capital the value of the security granted to SARB, and the impact thereof will depend on the aggregate amount of the SARB loans from time to time.

The Support Arrangements provide The Issuer with a significant underpin to meeting its conservative liquidity risk appetite while settling its contractual wholesale liabilities maturing over the period and ultimately facilitating The Issuer's re-entry, on a stand-alone basis, into the South African wholesale funding market.

## DESCRIPTION OF ABH GROUP

### INTRODUCTION TO THE ABH GROUP

The ABH Group consists of: (i) ABH as the group holding company and a controlling company in respect of the Issuer; and (ii) ABH's two direct wholly-owned subsidiaries, the Issuer and AIG (African Insurance Group Limited), as the holder of the Cell Captive Shares.




### OVERVIEW OF THE VARIOUS ENTITIES COMPRISING THE ABH GROUP

**African Bank Holdings Limited**

African Bank Holdings Limited (registration number 2014/176855/06) ("**ABH**") is the ultimate holding company of the ABH Group and is a bank controlling company in respect of the Issuer in accordance with the Banks Act.

All of the ordinary shares in ABH are, at the Information Date, owned by the Consortium (25% being held by the Participating Banks, 25% by the GEPF and 50% by the SARB).

The Consortium provided ZAR10 billion of share capital to ABH immediately before the implementation of the Restructuring. ABH applied this share capital to capitalise the Issuer with an equivalent amount of equity share

capital. As a result, the Issuer had initial equity share capital equal to ZAR10 billion immediately following the Transaction Effective Date.

**African Insurance Group Limited**

African Insurance Group Limited (registration number 2014/177424/06) ("**AIG**") is the intermediate holding company for all the present and future insurance interests in the ABH Group and is responsible for monitoring and ensuring compliance with the governance, risk and solvency requirements set out in the applicable insurance sector legislation. AIG is the registered and beneficial owner of the Cell Captive Shares and is contractually obliged to capitalise and fund the Cell Captive (as defined and further explained in "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*").

All of the issued shares in AIG are owned by ABH.

**The Issuer**

The Issuer was originally incorporated to acquire the Good Bank Business from RDS on the Transaction Effective Date. The Issuer is a direct, wholly-owned subsidiary of ABH and it holds all the licences, registrations and approvals required to conduct its business (including licenses and approvals required in terms of the Banks Act, the NCA and FAIS).

More detail about the proposed assets, liabilities, operations and business model of the Issuer is included in the section of this Information Memorandum headed "*Description of the Issuer*".

**BOARD AND CORPORATE GOVERNANCE STRUCTURES IN THE ABH GROUP**

The board of directors of ABH and the Issuer comprise the same individuals. 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 are several common directors, the composition of AIG's board is not identical to the compositions of the ABH Board and the Bank's Board. For more information on the composition of the Bank's Board, investors and prospective investors are referred to Annual Governance Report (which is issued annually at the same time as the audited financial statements are released) and any changes to such information after the date of such report will be available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "About Us" "Our Company"– "The Board"*** path in such website).

All group risk committees have been formed at the ABH level but have responsibility for subsidiaries as well (including the Issuer). The primary board committees that oversee risk governance for the ABH Board and the ABH Group are the Group Risk and Capital Management Committee (RCMC) and the Group Audit and Compliance Committee. In addition to these committees, another three permanent board committees are established at ABH level:

- a Group Remuneration Committee;
- a Group Sustainability, Ethics and Transformation Committee; and
- a Directors' Affairs and Governance Committee.

Each board of directors within the ABH Group has ultimate responsibility for the operational and financial soundness of the enterprise it manages, including ensuring that risks are adequately identified, measured and managed. The boards of the subsidiaries of ABH manage their respective businesses in the context of the group risk parameters and policies established by the ABH Group risk committees from time to time.

## DESCRIPTION OF THE ISSUER

### HISTORY AND OVERVIEW

African Bank Limited (the "**Issuer**" or the "**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 RDS in terms of the Restructuring and only commenced business on the Transaction Effective Date.

On 1 March 2016, the Issuer was granted approval by the Relevant Regulator within the Bank Supervision Department to register as a bank in South Africa and holds a full banking licence. The Issuer is also authorised as a financial services provider in South Africa by the FSCA and as a registered credit provider under the authority of a licence issued by the NCR in South Africa. During May 2018, the Issuer was appointed as a "restricted Authorised Dealer in foreign exchange" which permits the Issuer (under the Exchange Control Regulations) to issue credit and/or debit cards to individual and local entities enabling such cards to be used in foreign jurisdictions for permissible foreign exchange transactions.

The Issuer's original business plan was created based on existing capabilities within RDS and was originally predicated on the continuation of RDS business model of a mono-line, unsecured debt offering to natural persons, and addressing the same market segments that were targeted by RDS, being natural persons falling into medium to lower income segments who are not well served by other banks for personal loan needs.

After the Transaction Effective Date, the Issuer was led by a new Chief Executive Officer, Chief Financial Officer, Chairman and the Boards, who have *inter alia*, focused on taking the business forward and exploiting new strategies and opportunities.

As a condition to its registration as a bank under the Banks Act, the SARB required that the Issuer should demonstrate plans and steps to diversify its business model within two years from the Transaction Effective Date. This condition was, effectively a mandate for the new leadership of the Issuer to seek out the most viable path for a longer-term sustainable future that did not depend solely on a single unsecured lending product offering. The strategy set in 2016 was for the Issuer's business to evolve and ultimately offer a diversified range of products and services that would compete on the basis of innovation, creating customer value and socially responsible banking. This transition from the single-product business to a diversified financial services business required a major digital transformation of the Issuer, internally and in its channels to market. Further upskilling of the Issuer's people was and will continue to be required. Further, in order to build and maintain a fresh reputation, the Issuer will continue to focus on transparent and proactive communication with shareholders, stakeholders and potential funders and investors.

The Issuer has its registered office at 59, 16th Road, Midrand, 1685, South Africa, telephone number: +27 11 256 9000.

### CORPORATE STRUCTURE AND SHAREHOLDING

The Issuer is a wholly-owned direct subsidiary of ABH, which is a registered bank controlling company. The Issuer does not currently have any subsidiaries of its own.

Each of the Issuer and ABH is subject to the regulation of the Prudential Authority of the SARB.

All of the ordinary shares in ABH are owned by the Consortium. By the Transaction Effective Date, the Consortium capitalised ABH with ZAR10 billion of equity in the following proportions:

- SARB: ZAR5 billion – 50%;
- GEPF: ZAR2.5 billion – 25%;
- Absa Bank Limited*: ZAR495 million – 4.95%;
- Nedbank Limited: ZAR410 million – 4.10%;

- o FirstRand Bank Limited: ZAR655 million – 6.55%;
- o Investec Bank Limited: ZAR245 million – 2.45%;
- o The Standard Bank of South Africa Limited: ZAR595 million – 5.95%; and
- o Capitec Bank Limited: ZAR100 million – 1.00%.

This equity capital was utilised by ABH on the Transaction Effective Date to capitalise the Issuer with an equivalent ZAR10 billion. Investors and prospective investors should refer to the most recent financial statements of the Issuer available at the relevant time on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information" "Financial Reporting"*** path in such website) for the latest published information regarding the level of equity capital in the Issuer.

*ABSA Bank Limited holds its investment in ABH through Absa Trading and Investment Solutions (Proprietary) Limited.

**STRATEGY OF THE ISSUER**

The Issuer describes its purpose as "*Advancing lives through financial and related services*". In order to achieve this purpose, the Issuer's strategy, which was modified during 2018, rests on three pillars:

1. to create an internal ***Culture*** that aspires to create solutions that advance lives and puts the customer at the centre of everything that it does through a process of collaboration, diversity and inclusion, continuous learning and leadership;
2. to drive ***Customer-centricity*** through a determination to deliver to its community of stakeholders with more than is expected by creating a multi-product and multi-channel experience and to be a leader in customer satisfaction; and
3. to use, manage, enrich and interpret ***Data*** to anticipate customer needs and inform decisions which it makes thereby to become a data-centric organisation through its people, its technology, its partners and its processes.

The ABH Group strategy is designed to support the purpose of the Issuer. To further support its purpose, the Bank has adopted a vision to ensure organisation-wide clarity and direction which vision is to be "*a diversified and investible retail bank serving lower to middle income consumers, by providing financial and related products and services that meet their needs, delivered through multiple channels"*.

This has required a revision of the historic strategy of delivering mono-line unsecured lending products through a branch network, a business that the Group believes is unsustainable in the longer term, to a business that offers an appropriate product set to its customers through appropriate channels.

Since the Transaction Effective Date, the ABH Group has been on a journey to change its operating model from a relatively manual, branch-based, information technology enabled model, to a digitally-enabled operating model in order to become a predominantly digital bank, supported where appropriate by a fit for purpose branch-based infrastructure. In addition to seeking a better level of customer service, the digitisation of the business model is designed to allow a lower-cost operating model which aims to ultimately translate into a lower-cost offering for customers.

The embodiment of the strategy into a diversified business has resulted in the separation of the business into strategic focus areas. The three operational focus areas are:

- **'Branch Network'** - branches providing all products and customer servicing;
- **'Direct Sales'** providing credit and other products through direct contact with customers via voice-led channels; and

- **'Digital'**, the channel providing transactional banking products as well as credit to customers through a digital 'omni-channel environment' (meaning that the above three operational focus areas or “channels” will be interoperable).

These three business channels are all supported by the **'Corporate Centre'** of the ABH Group which, *inter alia*, aims to maintain appropriate levels of funding, liquidity and capital throughout the ABH Group and its companies, with particular emphasis on the Bank, and holds excess capital and liquidity.

The ABH Group strategy is reviewed annually in April in a special board strategy meeting, also attended by the executives. The outcome of the board-approved strategy is used to inform the three-year financial plan of the Issuer.

**DELIVERING ON THE STRATEGY**

In implementing the Bank’s strategy, it has focused the entire organisation on working towards a single tangible, measurable and overarching goal, which is expanding its customer base through focused product, service and pricing offerings, targeting middle to income consumers and users of unsecured credit.

The strategy of the Bank is implemented against set targets and its delivery is measured through a series of key performance indicators that align with the performance aspirations of the ABH Group. The performance of each person responsible for aspects of the delivery of the strategy is recorded on their individual performance scorecards that influence the variable part of their remuneration.

The ABH Group measures its performance against performance indicators internally on a monthly basis and reports its performance against these indicators quarterly to the Boards and related governance committees. Performance against these indicators is also reported to the market at an ABH level semi-annually as part of the release of interim and final financial results of ABH Group.

The ability to implement the strategy of the Bank was initially hampered by the need to look back and fix several fundamental problems inherited by the Issuer from RDS. This included a substantial investment in stabilising the Issuer’s legacy IT systems, bringing software licences up to date and addressing outdated networks. At the same time, the Issuer was able concurrently to invest in the diversification of its business, undertaking a ‘Big Data’ investment as part of the transition to transactional banking, incorporating an omni-channel approach to customer interaction as well as a complete overhaul of its ‘digital’ channel.

The ABH Group achieved the following milestones in implementing its strategy to become a predominantly digital bank:

- During April 2018, the Bank launched its transactional banking offering, known as the *MyWORLD* account, to its employees;
- In February 2019, the Bank invited selected customers as well as associates of the Bank’s employees to open accounts in the Bank’s branches. Through the feedback received from the Bank’s employees and this broader market testing, the Bank was able to refine its *MyWORLD* product and processes.
- The *MyWORLD* product was officially launched to the general public during May 2019.

The implementation of the transactional banking business is expected to further stabilise the operations of the Issuer, with the object of increasing its financial stability over the longer term.

There are also the following areas of improvement since the implementation of the Restructuring:

- the management of credit, collections and improving data quality. The credit models, which have gone through a rigorous validation process, together with the Issuer’s improved collection record and high accounting standards, provide confidence in financial predictability;
- the Bank now has all its data in one place, as opposed to the various data warehouses that existed previously; and

- the Bank has made significant progress in inculcating the ABH Group's values and establishing a culture in furtherance of its purpose and strategy, by putting the customer at the centre of the Bank's world and aiming to deliver a customer experience that will be a marketplace differentiator.

For other milestones achieved by the Bank in pursuit if its strategy, see the section of this Information Memorandum headed *"Curatorship of Old African Bank, Summary of Restructuring and Summary of Post-Restructuring"*.

While the Issuer remains exposed to the potential negative impacts of the macroeconomic factors at play within South Africa, the Issuer continues to focus on the risks inherent in the lending business and must continue to apply stringent underwriting standards and prudently manage the risk inherent in its lending portfolio, while simultaneously looking for growth (both organic and inorganic) in new areas for the Issuer.

In terms of the Bank's strategy execution plan, from an organic growth perspective, the Bank will continue to pursue a credit-led strategy with cross-sell opportunities into transactional banking and other value-added services and products. The *MyWORLD* offering remains the Bank's anchor product; improving customer loyalty and encouraging our customers to take up complementary products. The Bank's inorganic growth strategy entails the Bank actively identifying partnership and M&A inorganic growth opportunities. In addition, the Bank commenced a process of right-sizing the organisation and stripping out unnecessary costs during FY20 which will continue into FY21.

**IMPACT OF COVID-19 ON DELIVERY OF STRATEGIC TARGETS**

Despite the positive advancements of the Bank in delivering on its strategy, the challenging economic environment in South African, exacerbated by the Covid-19 pandemic and related national state of disaster and lockdown measures, negatively impacted the Bank's performance during FY20. This was largely attributable to higher credit impairments in the Bank when compared to the prior year. (See "*Risk Factors – Risks related to the business and the industry of the Issuer - Covid-19*".)

In terms of the Issuer's performance against its strategic financial and non-financial targets for FY 21, the Issuer was on course to achieve several key metrics ahead of schedule. However, measures introduced by the Issuer pursuant to the national state of disaster arising from the Covid-19 Pandemic significantly impeded the Issuer's progress in this regard. Given the global recession and the uncertainty surrounding socio-economic recovery timelines, the Bank's Board supported the executive committee proposed adjusted FY23 strategic targets based on the Group's updated base case scenario. For more details on the Bank and the Group's strategic targets and performance measures, investors and prospective investors should refer to the most recent ABH Integrated Report.

**BUSINESS OF THE ISSUER**

**Introduction**

The Issuer, as a registered bank under the Banks Act, continues to offer, as its core product, unsecured lending in the form of long-term and short-term personal loans and credit cards, to its target market of typically lower to middle-income customers.

The Bank has focussed on setting itself up and on delivering on its mission to be a successful retail bank, offering a wide range of products and services to the consumers of South Africa. At the core of this strategy is the introduction of a range of transactional banking products. This required a revision from the historic business of delivering mono-line unsecured lending products through a branch network to a business that offers an appropriate product set to its customers through appropriate channels. For further information in this regard see "*Description of the Issuer – Strategy of the Issuer*" – and – "*Delivering on the strategy*" above.

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

**Transactional Banking**

The launch of the *MyWORLD* transactional banking offering during May 2019 was a strategic milestone for the Bank. Since the launch of the Bank, it has invested an enormous amount of time and effort, alongside the appropriate financial investment, into building the *MyWORLD* offering — an online account product that provides customers with combined savings and shared banking capabilities, and which the Bank believes it fits squarely into its strategy of making a positive difference to its customers' financial lives.

The *MyWORLD* pricing structure intends to give the Bank an advantage in the competitive transactional banking landscape, which is composed of large entrenched, traditional banks and new digital transaction banks.

The Bank does not anticipate that the *MyWORLD* bank account offering will deliver significant returns to the Bank on a standalone basis. It is expected to break even over three to five years. The longer term return on the investment into *MyWORLD* spans a number of key areas, including:

- New customer acquisition – *MyWORLD* is intended to be an attractive offering for the Bank's target market. This ability to provide a wider, more comprehensive banking offering is expected to attract a significant number of new customers, which creates more opportunity to promote the Bank's Savings and Investments offerings and attract new personal loan customers.
- Retention of existing customers – The personal loans market is extremely competitive — even more so for the Bank, a previously mono-line product provider. The wider offering therefore gives the Bank an opportunity to retain its existing loan customers, while allowing Savings and Investment customers to now hold transactional banking accounts with the Bank.
- Customer data – Transactional banking not only increases the Bank's customer base, but also provides the Bank with additional data insights into customer behaviour. The use of this data assists credit underwriting decisions and collections capabilities for the lending business. It also provides insights into savings habits for the Retail Deposit and investments business (described below in the section of this Information Memorandum headed "*Retail Deposits and investment products*"). Access to, and intelligent use of, customer data allows the Bank to refine its customer strategy.

**Personal loans**

The Issuer provides unsecured loans to typically lower and middle-income customers in South Africa (being South African residents employed in the formal sector of the South African economy) focusing on offering loan products to lower-risk customers. The eligibility criteria for the Issuer's loans will continue to require individuals to have a bank account in South Africa. The loan products originated by the Bank are typically term facilities, having maturities with fixed, equal monthly repayments. Information as to loan size and term can be obtained from most recent Issuer financial statements and ABH Integrated Report.

**Credit cards**

The Issuer offers a single credit card product (Black credit card) to its customers. The product is aimed to assist customers with their everyday spend, planned or emergency situations.

**Credit life insurance**

The Issuer offers credit life insurance to the Issuer's customers. The insurance policies sold by the Issuer 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 loans granted by the Bank is retained within the cell captive arrangement (described below in the section of this Information Memorandum headed "*Cell Captive Arrangement*").

**Funeral insurance**

The Issuer offers its own branded funeral insurance product, the Claim Express Funeral Plan, throughout its branch network. The funeral products are insured through the cell captive arrangement (described below).

**Cell Captive Arrangement**

The underwriting risk in the credit life insurance and other insurance offered by the Bank to its customers in respect of loans granted by the Bank is undertaken by Guardrisk. In this regard, the Bank has entered into the required intermediary, binder and/or outsourcing agreements with Guardrisk pursuant to which the Bank markets Guardrisk policies to its customers and earn fees and commission from Guardrisk in this regard.

Through a cell captive arrangement between Guardrisk and AIG, the underwriting profits and losses in respect of all the insurance business introduced by the Bank to Guardrisk are notionally segregated into a specific and contractually ring-fenced cell (the "**Cell Captive**"). Guardrisk, as the cell captive insurer, has issued a class of shares in Guardrisk (known as the L24 share in Guardrisk) to AIG, which is a wholly-owned subsidiary of ABH (with ABH being the direct parent of both the Issuer and AIG), which class of shares is linked to the Cell Captive (the "**Cell Captive Shares**") and enables AIG as the relevant shareholder (or cell owner) to share in the profits of the Cell Captive through dividends.

Accordingly, if an underwriting profit is made in the Cell Captive, then AIG has the right to the profits (or dividends) in its capacity as shareholder. If an underwriting loss is made or there are additional capital requirements over and above the available capital for any other reason, AIG is contractually obliged to subscribe for further Cell Captive Shares to contribute sufficient capital to absorb the loss. As such, AIG, as shareholder effectively carries the risk and shares in the benefit of the insurance business in the Cell Captive.

Guardrisk is a registered and licensed long-term insurance company that has been conducting cell captive insurance business in South Africa for over 18 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.

**Retail Deposits and investment products**

The Issuer offers retail savings and investment products, including fixed deposits, flexible fixed deposits (where a portion of the deposit is available on notice) and notice deposits, with the Bank targeting term Retail Deposits of up to 5 years.

During FY17, the Bank introduced a range of investment products, which includes a tax-free savings product, a fixed deposit, a notice deposit and an accumulator product. These products 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.

While the Retail Deposit business is still relatively new to the Bank, the Bank has achieved success in growing its Retail Deposit book. This growth in Retail Deposits is aligned with the Issuer's strategy to diversify its funding base.

Investors and prospective investors should refer to the most recently published financial statements of the Issuer and ABH Integrated Report which are available on the website of the Issuer for the latest information regarding the significance of the Retail Deposits and investment products to the Bank's funding base.

**Operational Channels**

The products referred to above are distributed through the Issuer's three sales channels, enabling its customers to engage with it:

- *Face-to-face* through the Bank's branch network, which is the Bank's primary sales channel.

  The branch network business is situated entirely in South Africa and been modernised, with branch processes being streamlined. Additional systems, furniture and components to meet the requirements for transactional banking have been introduced into the branches and employees who serve customers in the

branches and contact centres have also received training on the system and on Omni-channel referred to below.

- *Voice-to-voice* through the Bank's Direct Sales channel.

  The Direct Sales business comprises the loans and credit cards originated through direct contact with customers via a voice-led channel. The continued roll out of the Direct Sales business has resulted in increasing new business disbursements through this channel, contributing more meaningfully to new loan business disbursements. The Bank has developed the capability to originate business through this channel using its in-house capability, which has been further developed and refined.

- *Digitally* through the Bank's digital channel (which provides transactional banking products with customers through a digital environment).

  'Digital' in the Bank means two things:

  - creating a choice of channels that provide quick and easy access and efficient service; and
  - building foundational system capabilities to achieve a compelling and easy customer experience.

The launch of transactional banking represents a fundamental shift in the business model of the Bank. While the *MyWORLD* product itself is a new development for the Bank, the development of the "omni-channel" platform on which this product resides and onto which the other products are, at the Information Date, being migrated, represents a significant shift in the Bank's approach to delivering its products to its customer base.

Through the public launch of the Bank's omni-channel, its customers are able to engage with the Bank across all three channels. "Omni" enables inter-operability among the three channels making it possible for customers to begin a transaction in a digital channel and complete it through Direct Sales (voice-to-voice) and/or at a branch (face-to-face).

The benefits to customers are convenience and channel flexibility. The 'omni-channel' platform also allows for better transaction flow management and execution for the Bank internally, allowing the Bank to realise processing efficiencies over time and longer-term cost savings.

These three operational channels are all supported by the **'Corporate Centre'** of the ABH Group which, *inter alia*, ensures appropriate levels of funding, liquidity and capital throughout the ABH Group and holds excess capital and liquidity.

**Information Technology**

Availability of IT services is indispensable for the Issuer, and IT forms an integral part of the daily operations and strategy execution of the Bank. The Bank inherited the existing IT systems and infrastructure of RDS, which required urgent action and investment to establish appropriate IT foundations to enable the creation of business value.

There is a clear link between the Bank's strategic objectives and its IT focus. The main aim of the Bank's investment in technology is to provide its customers with innovative solutions and create business value through technology modernisation.

The initial aim of the Bank's IT investment programme was to address IT governance and stability, which was achieved during FY17. During FY18, the Bank continued to invest in refreshing the Bank's core infrastructure, including security infrastructure. These investments are essential building blocks in the enablement of the Bank's omni-channel approach and the launch of its *MyWORLD* transactional banking offering and provides a strong foundation on which the Bank can continue to build its digital future.

The Bank faces a constant challenge in preserving the confidentiality, integrity and availability of its information assets against a broad range of external and internal threats. There has been an increase, globally, in both the frequency and severity of cyber-attacks. The Bank has made several cyber security investments in technology and

employees in line with its security strategy and is now better equipped to secure and protect key information access, achieve adherence to the main ISO standards, and maintain a defendable, risk management-based security posture in the face of a constantly changing regulatory, customer, and threat environment.

The Internal Audit function of the Bank adopts a risk-based approach. This approach incorporates continuous real-time assurance of access control aspects of information security and traditional assurance reviews of governance and security posture controls.

Enhancement of the Bank's IT systems and cyber security is an ongoing process, particularly given the facilitation and enablement of a significant number of staff from the Bank's head office to work from home during the Covid-19 pandemic.

**Human Capital (*people*)**

Driving effective and sustainable organisational transformation remains a key pillar of the Bank's overall people strategy in which the Bank strives to:

- attain equal opportunity and fair treatment through the elimination of unfair discrimination and the implementation of employment equity legislation. In this regard, the ABH Group has internal employment equity (EE) targets which are set in a view to achieve the economically active population distribution in future and ensures that new employment opportunities that arise are filled in order to align with employment equity targets.
- attract, retain and develop the talent for its market.

A people engagement survey is conducted annually in August, with the results being shared openly with the Bank's employees people, who are encouraged to discuss their scores and create detailed plans to further increase engagement.

A key intervention, which was finalised in early FY21, relates to the voluntary retrenchments and early retirements of a certain percentage of the Bank's workforce, as a result of automation opportunities and productivity improvements. In October 2020, this process commenced with a consultation process under section 189A of the Labour Relations Act 66 of 1995, as amended, which led to in excess of 400 employees leaving the Bank.

Another key event was the resignation during January 2021 by the Chief Executive Officer of the Bank, Basani Maluleke, and the appointment of Gustav Raubenheimer as Acting Chief Executive Officer, who is also the Chief Finance Officer of the Bank.

**Collection of Residual Book for RDS**

As part of the Restructuring, the Issuer was appointed by RDS to collect and administer the Residual Book. Initially, the Issuer was appointed for a minimum period of 1 year (which has been extended annually since then), with an 8 months' notice period should either RDS or the Issuer wish to terminate the arrangement. The fees payable by RDS to the Issuer for the collection of the Residual Book were negotiated on arms' length terms and, prior to committing to such fees, were reviewed by an independent expert.

As the Residual Book continues to decrease, the cost of recovery is expected to decrease at a lower rate as a result of a higher proportion of the collections being more difficult specialised collection (legal and third-party agency collection) attracting a higher fee than electronic collections which are a reducing portion of total collections over time.

The applicable fees derived from this portfolio contribute to non-interest income of the Bank, which continue to decline, as expected, as the Residual Book continues to decrease.

**Business Insurance**

All insurance coverage for the ABH Group (including the Issuer) has been placed at the ABH level. ABH has 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 is intended to protect the ABH Group against direct 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 ABH Group against claims brought against it for financial losses suffered by a third party as a result of, *inter alia*, negligence, errors or omissions committed or omitted by employees of the ABH Group as well as the ABH Group's legal liability to third parties arising from the fraud of an employee.

**COMPETITIVE LANDSCAPE**

The Issuer competes with both large lenders and smaller short-term lenders. Banks that provide credit to their customers comprise a large group of the Issuer's competitors. 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.

The retail banking sector continues to be characterised by heightened levels of competition with several new entrants gaining momentum while the larger retail banks are seeking to attract new customers to their broader service offering. 24/7 social media campaigns and other virtual and physical marketing channels are increasing consumer knowledge of competing product offerings where customers are enticed by more attractive rates, personalised service and loyalty programmes.

**CREDIT RATINGS**

As at the Information Date, the DMTN Programme and all Notes issued thereunder are not rated. Each Applicable Pricing Supplement will contain the rating of the Issuer at the relevant Issue Date. Any change to the Issuer's credit rating will be announced on SENS from time to time.

**IMPROVED RISK GOVERNANCE FRAMEWORK**

The Curatorship and the subsequent establishment of the Issuer necessitated a rigorous re-examination of the Group's risk management and risk governance framework. A complete overhaul of RDS' risk management framework was undertaken, and a new framework adopted by the Bank's Board for the Bank.

The Boards and senior management are committed to sound corporate governance and ethical business practices. The ABH Board has approved a governance framework for the Group, which it oversees and monitors to maintain adequate and effective processes in place that:

- are consistent with the nature, complexity and risk inherent in the Group's business activities, and
- respond to changes in the environment in which the Group operates.

The governance framework applies to all the businesses in the Group. In developing the governance framework, the ABH Board took into account the requirements of King IV, the Companies Act, the Banks Act and other relevant legislation and/or regulations and best practice. The Group's strategy is supported by its governance framework, which is continually reviewed to ensure it supports effective decision making, provides robust controls and is aligned to evolving local and global best practice.

The boards of the subsidiaries of ABH, including the Bank's Board, have adopted the governance framework and procedures approved by the ABH Board.

**Annual Governance Report**

Investors and prospective investors should refer to the most recent Annual Governance Report published by the ABH Group from time to time for details regarding:

- the governance framework applicable to the ABH Group, including the Issuer;
- the board of directors of the Issuer, including:
    - a curriculum vita for each board member;
    - the Bank's Board independence,
    - the Bank's Board diversity,
    - its code of conduct; and
    - the board evaluations process;
- the board committees;
- the executive committee; and
- the risk management framework, process and objectives,

as at the end of the previous financial year for which audited financial statements have been issued. The most recent Annual Governance Report is available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Governance Report (including King Code)***" path in such website).

**Governance Policies**

The following policies of the ABH Group (applicable in respect of the ABH Group, including the Issuer) are available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Policies***" path in such website).

- the Conflict of Interest Policy; and
- the Policy on Selection and Nomination of Non-Executive Directors.

**Directors and Company Secretary**

The most current details, from time to time, of the board of directors and the company secretary of the Issuer (including the directors' brief curriculum vitae and capacity) are also available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "About Us***" "***Our Company***"*– the* "***Board***" path in such website).

The list of directorships of each director is contained in the most recent Annual Governance Report, available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Governance Report (including King Code)***" path in such website).

The company secretary of the Issuer is Maliga Chetty, with her business address at 59, 16th Road, Midrand, 1685, South Africa.

**Directors Disclosure**

As at the date of this Information Statement, none of the directors, or the debt officer, of the Issuer have:

- ever been declared bankrupt, insolvent, had individual voluntary compromise arrangements or been sequestrated in any jurisdiction;
- ever been involved, as a director with an executive function, in any business rescue plans and/or resolution proposed by any entity to commence business rescue proceedings, application having been made for any entity to begin business rescue proceedings, notices having been delivered in terms of section 129(7) of the Companies Act, receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any compromise or arrangement with creditors generally or any class of creditors of any company at the time of or within the 12 months preceding such event;

- ever been involved in compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where such director is or was a partner at the time of, or within the 12 months preceding, any such event;
- ever been involved in any receiverships of any assets(s) of such director or of a partnership of which such director is or was a partner at the time of, or within the 12 months preceding, any such event;
- ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
- ever been involved in any offence involving dishonesty;
- ever been convicted of any criminal offence involving dishonesty, fraud, theft, forgery, perjury, misrepresentation or embezzlement;
- ever been barred from entry into any profession or occupation;
- ever been convicted in any jurisdiction of any criminal offence or an offence under legislation relating to the Companies Act;
- ever been removed from an office of trust, or on the grounds of misconduct and involving dishonesty; and
- ever been subject to a court order declaring such director delinquent or placing such director under probation in terms of section 162 of the Companies Act and/or Section 47 of the Close Corporations Act, 1984 (Act No. 69 of 1984) or disqualifying him to act as a director in terms of Section 219 of the Companies Act, 1973 (Act No. 61 of 1973).

*Gustav Raubenheimer was the Executive: Credit of RDS when it was placed under Curatorship in August 2014.

**Debt Officer**

As at the Information Date, the debt officer of the Issuer is Gustav Raubenheimer.

***Address***: 59, 16th Road, Midrand, 1685, South Africa, +27 11 256 9000

***E-mail address***: debtofficer@africanbank.co.za

**King IV**

Consistent with King IV's "apply and explain approach" to disclosure, the Group considers and applies the principles of corporate governance that are relevant to it. The Issuer applies the King IV principles on the same basis as ABH. Details regarding ABH's implementation of the King IV principles are contained in the Annual Governance Report available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information" "Governance Report (including King Code)"*** path in such website)..

**RISK MANAGEMENT**

The Bank's risk universe is a collection of risks built on the analysis of the business's core operations and the environment in which it operates. The Issuer has set out the factors which it believes represent the principal risks faced by the Issuer and inherent in investing in the Notes in the section of this Information Memorandum headed "Risk Factors".

As at the Information Date, the following five risk factors are considered the top five risks facing the Bank at the Information Date in addition to risk caused to the business by the Covid-19 pandemic:

- Strategic risk
- Funding and Liquidity risk,
- Cyber-crime risk,

- Information technology risk
- Credit risk,

The risk management descriptions below seek to illustrate the Group's responses to these risks.

***Covid-19 Risk Mitigation Response***

This risk factor is described *"Risk Factors – Risks related to the business and the industry of the Issuer - Covid-19".* In response to the Covid-19 pandemic, the Bank

- implemented effective remote working practices; introduced strict hygiene and sanitisation protocols and provided employee support to those infected with or exposed to the virus;
- the Bank continued to focus on enhancing its information security controls; and
- continued focusing on its strategy and purpose to ensure that customers are provided with responsible and affordable access to credit and other products that will advance their lives.

The change of employee and customer behaviour forced by Covid-19 enabled the Bank to identify and implement opportunities such as:

- further strengthening of business continuity and disaster recovery plans;
- improving efficiency of operational processes and communication through automation and use of digital platforms;
- using data analytics to improve collection and application validation efficiencies and to pre-empt changes in consumer behaviour and requirements;
- providing instalment relief to customers through a payment holiday;
- reviewing business and strategic imperatives; and
- partnering with social responsibility partners to deliver meals to distressed communities.

***Strategic Risk and Business Risk Management***

For information on the strategic risks and business risks of the Bank at Information Date, see "*Risk Factors – Strategic Risk*" and "*Risk Factors – Business Risk*".

*Management of Strategic Risk and Business Risk*

Business and strategic risk are primarily the responsibility of the ABH Board and the Group Executive Committee to manage.

Business risk and strategic risk are not specified risks for Basel III Pillar 1 regulatory capital, therefore no calculation of risk or its corresponding capital requirement is stipulated by the Bank's regulator as part of the regulatory capital requirement. (Pillar 1 sets out the minimum capital requirements that banks are required to meet in respect of credit, market, and operational risk.)

However, both business and strategic risk form part of Basel III Pillar 2 (which prescribes the requirements for 'supervisory review' under which banks must assess their capital adequacy relative to their overall risks). The SARB has indicated that this is a critical risk for the Bank to consider. Business and strategic risk are therefore monitored and managed by the Bank, and an assessment is made annually as part of the ICAAP as to the impact of these risk types on future earnings and the sustainability of the Bank at the ABH Board and the RCMC level. Where risk is identified, an appropriate response from a governance, management and economic capital methodology is required.

The Issuer considers that strategic and business risk are risks that should be assessed together. The imperative of the Group is to ensure that both the existing business, as well as future strategic initiatives to diversify this business are successful as it continues to transitions from a single-product lending business to a retail

transactional bank in South Africa with a diversified financial services business offering in line with its strategy.

The various management techniques and governance processes used to assess strategic and business risk include:

- ABH Board and the Group Executive Committee strategic planning sessions, culminating in the ABH Board strategy session in April of each year;
- The rolling three-year financial forecasting process, culminating in ABH Board sign-off in September of each year;
- Scenario analysis performed as part of the ICAAP and Recovery Plan, and as part of risk specific stress testing particularly as regards credit and liquidity risk;
- Internal scorecard assessment of the results of strategic initiatives against expected performance; and
- Monthly assessment of performance against budget on discrete monthly and year-to-date basis.

The ABH Board and the Group Executive Committee acknowledge the risks inherent in the banking industry are vast, and that the ever-changing environment in which the Bank operates compounds the difficulty in determining a best course of action. The macro-economic, regulatory and political landscape in South Africa has been in a state of change in the recent past and the Bank expects this volatility will continue into the foreseeable future. To this end, stress testing and scenario analysis are very useful in determining whether a strategy may be successful.

In addition, regulatory and legal changes place additional pressure on the ABH Board and the Group Executive Committee to determine effective strategies and assess the profitability of existing business lines.

***Liquidity Risk Management***

For information on the key funding and liquidity risks of the Issuer at the Information Date, see "*Risk Factors – Funding and Liquidity Risk*".

*Liquidity risk governance*

The Group manages liquidity through its Treasury function, which is responsible for liquidity risk management on a day-to-day basis, in addition to assessing and managing the longer-term strategic liquidity profile. ALCO is responsible for providing oversight and strategic direction to liquidity risk management. ALCO has delegated authority from the RCMC and reports liquidity risk quarterly to that committee.

ALCO is specifically mandated by the RCMC to ensure appropriate liquid asset and cash reserves in relation to short-term funding and stress events are available. Liquidity metrics are reported monthly to ALCO and quarterly to the RCMC.

*Liquidity risk management*

ALCO monitors and controls adherence to the risk appetite and regulatory requirements, using primarily a rolling 36-month cash projection base case scenario, with appropriate stress scenarios applied, in conjunction with back testing previous forecasts to assess the accuracy of the forecasts used. The base case cash flow forecasts and the base case financial forecasts used for financial and capital forecasting are aligned and checked for consistency, thereby ensuring consistency between the financial, capital and liquidity forecasting processes. Furthermore, regulatory compliance with the liquid asset and cash reserve requirements, and the LCR and NSFR monitoring indicators, is reported on. The 36-rolling cash flow forecast used in conjunction with these monitoring indicators and other supporting liquidity risk-appetite metrics provides a comprehensive set of risk management controls for liquidity risk on short, medium and longer-term basis.

Liquidity risk includes asset/liability mismatch risk. The Group manages liquidity risk in order to ensure compliance with current regulatory requirements, as defined by liquid assets on hand, LCR and NSFR (see "*Capitalisation and Indebtedness – Capital Adequacy and Liquidity in the Issuer*"). Cognizance is also taken of the expectations of external stakeholders, including rating agencies, investors, fund providers and depositors, in determining the liquidity risk profile.

The Bank's profile of longer-dated publicly-listed instruments under this Programme and the EMTN Programme and its focus on Retail Deposit products with a five-year term provides a well-structured maturity profile and contributes to the strong asset-liability management profile.

The Bank plans for a survival-horizon funding and commensurate with the Bank's liquidity risk profile. Funding and liquidity risk also form a core part of the recovery planning process as described in the section of this Information Memorandum headed "*Risk Management — Managing capital adequacy*".

For further discussion of this risk see "*Risk Factors – Funding and Liquidity Risk – The Issuer is exposed to funding and liquidity risk*" and "*Risk Factors – The Issuer could be adversely affected by its credit ratings or those of South Africa*".

*Short term liquidity management*

The Group aims to manage stress liquidity on a conservative six-month stress basis, as described above, especially when considering that the norm within the banking industry in South Africa in general is to regard one-month liquidity as short term.

The Bank monitors and assesses its intra-day funding and liquidity requirements based on operational and business needs on a daily basis. Typical cash outflows include loan disbursements, salary payments, servicing of the Bank interest coupons on, and repayment of capital on maturity, of its funding liabilities and cash withdrawals by clients with investment accounts. Cash inflows generally occur through the collection of fees and debt repayments from loan customers, as well as deposits and investments. This process includes the utilisation of current account balances held with the South African banks.

*Stress testing*

Scenario stress testing, including LCR stress scenarios, is performed monthly submitted to SARB periodically.

The Bank accepts that, as its liquidity profile changes with the inclusion of transactional banking and accepting short-term customer deposits, it will be necessary to review all the stress funding assumptions and, in time, it may be that a revised stressed survivability horizon will be more appropriate for the Bank.

*Shareholder engagement and liquidity planning*

In order to manage this funding risk and the consequential potential of liquidity risk in the future, the Bank initiated action during 2017 to develop and implement a solution to facilitate the Bank's reintegration into the debt capital markets and address any potential funding shortfall.

On 4 September 2020, the Bank entered into shareholder support and assistance arrangements with the shareholders of ABH in terms of which the ABH shareholders have undertaken to provide certain support facilities to the Issuer over a period of three years and four months, commencing 1 December 2020 and concluding on 31 March 2024. The conclusion of these arrangements is a significant milestone for the Issuer because the intention of the arrangements is to facilitate the Issuer's reintegration into the debt capital markets. (See "*Capitalisation and Indebtedness - Primary Sources of Funding and Liquidity for the Issuer - Shareholder Liquidity Support*" for more information on the shareholder liquidity support arrangement.)

*Liquidity Policy*

As at the Information Date, the Bank maintains a Funding and Liquidity policy. This policy defines the Bank's objectives for managing liquidity risk and sets out the liquidity survival horizon that the Bank expects

to maintain in order to have sufficient cash available to settle any outflows. The policy also provides guidelines for management to exercise oversight and control in establishing, measuring and managing liquidity risk.

*Reputational risk impact on liquidity risk*

The Bank also understands that there is a link between reputational risk and liquidity risk (see "*Risk Factors – Reputational Risk – The Issuer's reputation in the wholesale capital markets has been adversely affected by the Curatorship and could be further negatively affected*"). The ability of the Bank to attract customers and fund providers alike is dependent on maintaining a good reputation amongst clients and fund providers. The Bank recognises that the maintenance of capital buffers against both Basel III Pillar 1 and Pillar 2 risks can help in building confidence, thus alleviating reputational risk and any consequential liquidity and funding risks associated thereto.

***Cyber-Crime and Information Technology Risk Management***

For information on the Cyber-crime risk and the information and technology risks of the Bank at Information Date, see "*Risk Factors – Cyber Crimes Risk"* – and *"Risk Factors – Information Technology Risks*".

*Cyber security investment*

The key sources of concern include the escalating sophistication of threats, increased volume of cyber-attacks in the world at large, and an ever-expanding cyber-attack surface. This increasing sophistication and extent of cyber crime, coupled with the introduction of transactional banking, led to the Bank making several key and innovative cyber-security investments in technology and employees in line with its security strategy. The Bank's mitigation response is:

- the continual evaluation and management of this risk as part of the Bank's overall risk framework
- implementing appropriate preventive, detective and corrective controls as part of the Bank's information security programme;
- the establishment of a specialised and dedicated security team that monitors and manages this risk, against the backdrop of an ever-changing and increasing threat of cyber-crime

leading to a significant improvement in the Bank's ability and proficiency in managing and monitoring fraud and cyber-risks.

*Management of information technology risk*

The journey of the Bank towards a full blown digital banking solution is on-going and the long term relevance of the Bank remains dependent on becoming a successful diversified digital retail bank. In this, it is imperative that the Bank embraces new technology and uses data effectively and efficiently.

Information and technology risk management is primarily the responsibility of the Group's Executive for Information Technology and the IT department, while the management of strategic information and technology risk is the responsibility of the Group Executive and the Boards and their respective committees. The recognition that, given the Group's strategy, information and technology risk has indeed become a strategic risk, has gave rise to the establishment of the TechInfo Committee in late 2018.

The management of information and technology risk by the Bank's IT department is supported by business and the governance frameworks. There is a comprehensive monitoring, reporting and management process in place with monthly reporting to the risk management committee, and quarterly reporting to the RCMC, strengthened from the start of FY19 with reporting to the TechInfo Committee.

The terms of reference for the TechInfo Committee, as a sub-committee of the RCMC, include:

- Setting the direction of how technology and information should be addressed and approached in the Bank, taking into account innovation and progressive development, and also ensuring the ethical and responsible use of technology and information;
- Approving policies that articulate and give effect to its set direction on the employment of technology and information in a way that supports the Bank in setting and achieving its strategic objectives;
- Ongoing oversight of technology and information risk management and the integration of these risks into group-wide risk management;
- Enhancing the Boards' understanding and oversight of the systems (i.e. policies, controls and procedures) that management has in place to (i) identify, manage and mitigate risks related to cyber-security, privacy and disaster recovery (ii) respond to incidents with respect thereto; and (iii) protect the integrity of critical infrastructure assets;
- Reviewing periodic independent assurance on the effectiveness of the Bank's technology and information arrangements, including outsourced services;
- Ensuring compliance with all relevant legislation and codes of best practice as it relates to information and technology, where applicable;
- Reporting on information and technology related matters to stakeholders; and
- assessing the value delivered to the Bank through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure.

*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 and will introduce 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.

The majority of the operative provisions of the POPI Act came into force on 1 July 2020, with a twelve-month grace period for final implementation. During FY18 the Issuer implemented a project to address these requirements.

### *Credit Risk Management.*

For information on the credit risks of the Bank at the Information Date, see "*Risk Factors – Credit Risk*".

*Credit Risk governance and management*

Credit risk management in the Bank follows a three lines-of-defence governance model. The business (including the credit function in relation to the Bank's lending customers and Treasury function in relation to the other categories of credit risk exposure) acts as the first line of defence and is responsible for day-to-day credit risk management, including the identification, measurement, sanctioning, monitoring and reporting of credit risk.

The Risk Analytics team within the Enterprise Risk Management unit within the Group acts as the independent second line of defence and is responsible for oversight, independent challenge and review. The RCMC and the MRC act as the third line of defence and provide the Boards and senior management with independent assurance related to the effectiveness of risk management. Credit risk, and in particular retail credit risk on customer lending, is a fundamental component of the Group's Enterprise Risk Management

Framework, Risk Appetite Framework, Capital Management Framework and Stress Testing and Scenario Analysis Framework.

Retail customer credit risk is managed by the Group Executive for Credit and the periodic metrics and the appropriateness of the credit models and the assumptions thereto are presented to the MRC before finally being presented to the RCMC. Where changes to any credit risk parameter is required, this is presented to and considered by the Group Executive Committee, and thereafter the RCMC for approval.

The other elements of credit risk, comprising wholesale exposures credit risk, are managed through ALCO, the Group Executive Committee and the RCMC.

The prime objective and mandate of the MRC, as set by the RCMC, is to approve all credit-related models including impairments, credit scoring, profitability models and affordability models, all collection scorecards, ICAAP models and other models utilised in the Group. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies from its oversight process. The MRC meets on a monthly basis and reports to the RCMC on a quarterly basis.

*Advances Credit Risk*

For information on the advances credit risks of the Bank at Information Date, see "*Risk Factors – Credit Risk – The Issuer is exposed to credit risk by lending money to customers*".

The Bank's core business is to provide unsecured retail loans and credit cards to employed individuals and rely on collecting loan instalments directly from the customer's bank account, via an electronic debit order or alternatively accepts electronic funds transfer and cash deposits from customers. Customers are assessed in full every time they apply for credit to determine if their credit profile remains acceptable in terms of the credit policies of the Bank. All of the Bank's business is conducted in the South Africa. The demographic credit characteristics of the customer base exposes the Bank to systemic credit risk.

The Bank mitigates this risk by applying the Bank's application scorecard, a set of business rules, affordability assessments and verification of items on a sample basis as a fraud mitigation tool. The Banks's credit risk assessment process adheres to the requirements set out by the NCA and the FSCA.

By its nature, the sum of the carrying amount at each financial year end for unsecured loans, credit cards and any unutilised credit facilities represents the Banks's maximum exposure to credit risk for advances at that point in time. The Bank has insurance cover against credit events arising from death, permanent or temporary disability and retrenchment of customers through the Cell Captive arrangement between Guardrisk and AIG (see "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*").

<u>Credit risk assessment</u>

The assessment of the customer affordability is done in two parts. Firstly, the Bank ensures compliance with the NCA affordability guidelines, which the Bank calculates as being an amount equal to the net income less financial obligations less monthly living expenses. Secondly the Bank employs its own credit risk model affordability calculation, based on a repayment to income ratio model. The smaller of the NCA affordability assessment and the internal credit risk affordability calculation is used to determine the maximum instalment the customer can be offered, limited to the product maximum limits.

The Bank currently calculates credit scores for applicants and further groups these scores into risk groups (which have similar risk expectations). The credit scoring engine is configured with the credit policy parameters and is embedded in the system, preventing human intervention, which can result in breach of policy. The verification and inputs into the credit score system include:

- physical identification of the customer via their identity document, proof of address and biometrics, to validate the customer against data kept by the South African government's Department of Home Affairs;

- the customer’s three-month income, monthly living expenses, declaration of financial obligations, wage frequency, employer and bank details are captured;
- electronic credit bureau data; and
- the customer's historical performance on existing loans.

To mitigate against fraud, to ensure compliance and to manage credit risk, the customer’s completed application flows to the vetting queues. A queue is a process where an application is flagged for further vetting between when a customer applies for a loan and the approval / decline of an offer to the customer. It is a precautionary step taken to try and pick up early on underlying risk by flagging certain triggers known to carry risk. An application is flagged to go into a queue when one or more of these triggers are detected in the application detail of the customer. There are more than 100 possible triggers that could flag an application for further evaluation in a queue. In other cases, the queue is for checking on the completeness and accuracy of the documentation received and information captured.

*Credit monitoring*

The Bank utilises various reporting and monitoring tools to engage in and control ongoing credit risk within the credit life-cycle. These include the following:

- Real-time monitoring on application volumes, approval rates and processing quality;
- Collection reports by original origination periods to establish the initial recovery process efficiency;
- Credit aging reports to identify, manage and control loan delinquency and Expected Credit Loss (“**ECL**”) provisioning; and
- Active payment, collection and integrity trend analysis to control and manage underlying risks and movement within the day-to-day operational procedures.

The Bank’s credit management team reviews exception reports produced by the reporting and monitoring tools on a daily, weekly and monthly basis, depending on the type of exception report produced by the credit monitoring system and acts as early warning indicators which the credit management team actively manages. The respective credit management team members report directly to the Executive responsible for Credit.

*Collections and Recovery*

Core to the collection function is the monitoring of the payment patterns of accounts and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe possible. The Bank uses various debit strike platforms, and each provides the Bank with different striking capabilities and options. The Bank utilises several approaches to collect instalments from customers. These include the regulated non-authenticated early debit order (NAEDO) system, Debi-check system and electronic funds transfers. Collections through NAEDO will not be permitted in respect new loans from 1 May 2021 and will be discontinued entirely in respect of all collections in November 2021. Going forward, the Bank will continue to collect using Debicheck, which is a form of authenticated collections in which customers are required to authenticate a mandate before deductions can be made, and electronic funds transfers. Deduction mandates are obtained from customers in their loan contracts and are made from their primary bank accounts.

For further details, see “*Risks Factors – Risks related to the business and the industry of the Issuer – The Issuer operates in a highly regulated environment which is subject to change – Collection Methodologies*”.

Where collection is unsuccessful, arrears follow up is performed initially through the call centre. The Bank operates two types of payment arrangements to promote collection of repayments due– namely, informal indulgences and formal restructures.

Informal indulgences are where customers request a lower debit order amount referred to as a promise to pay. Formal restructures relate to debt counselling, administration orders and court orders. From an

impairment perspective, these advances are still aged through the contractual CD buckets based on their original contractual instalments and obligations.

The transfer policy prescribes when an account will be moved into the Legal Collections division of the Bank. Once an account has been transferred into Legal Collections, the account will be allocated to a department either in in-house or specialised outsourced third-party collections agents, based on current internal business rules.

*Non-Performing Loans – market practices*

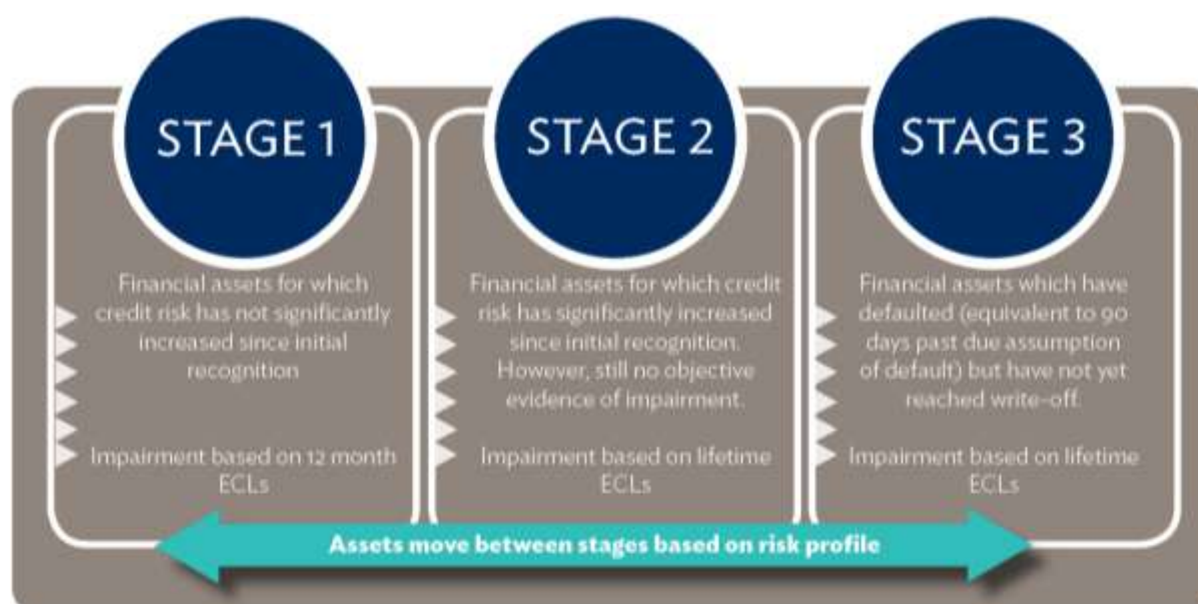
The Bank applies more conservative policies than is common market practice in calculating the provision for impairments on advances and the application of those policies result in a higher non-performing loan ratio.

- CD round-up: if a customer is 1 cent in arrears, they are categorised as being one instalment in arrears. So for instances, market practice may be to round up the non-performing loan status when a customer's CD categorisation is 3.5 or greater (as opposed to the policy of the Bank which is 3.01 or greater).
- Debt restructuring: The Bank does not cure or restructure customers who have made 6 consecutive payments.
- Another market practice is to allow settlement readvances (SRAs) to customers who are in arrears. The Bank will only consider a customer for an SRA after the original loan has been on the book for six months and the loan repayments are up to date. Furthermore, the Bank's more conservative practice is to only allow SRAs to customers in good standing.

*Impairments*

The same model methodology is applied against both the loan and the credit card portfolios to determine the level of credit impairment required.

IFRS 9 creates three separate stages into which an asset can be classified for the purposes of the impairment calculation. The stage within which an asset lies will dictate the basis on which its Expected Credit Loss ("**ECL**") is calculated. The graphic below indicates the stages, the requirements for an asset to be included in the relevant stage and the calculation of ECL in each stage.




As part of the staging methodology IFRS 9 calls for the identification of a Significant Increase in Credit Risk ("**SICR**") since initial recognition of an asset. The ECL recognised as an impairment of the financial assets

at initial recognition of the financial assets represent the lifetime cash shortfalls that will result from a default occurring in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months) weighted by the probability of that default occurring. If an asset is deemed to have experienced a SICR since initial recognition, the basis of impairment is automatically amended to reflect the lifetime ECLs, defined as the ECLs that result from all possible default events over the expected life of the financial instrument (stage 1 asset is moved to stage 2). The resulting increase in impairment of the asset when increasing the period for which expected credit losses are recognised from 12 months (as at initial recognition) to the remaining lifetime of the asset (following identification of a significant increase in credit risk) is substantial. These expected credit losses include potential losses as a result of future exposures from undrawn committed credit facilities, e.g., undrawn credit card facilities currently available to clients. This results in impairment loss allowances being held against exposures not included in the measurement of the outstanding balance of the corresponding financial asset.

For portfolio (collective) assessment of impairment, financial assets are assigned to each of the stages above based on associated Contractual Delinquency (“**CD**”) classifications and whether the assets have had a SICR since origination. Contractual Delinquency is defined as the total amount receivable to date less cash received, divided by the original contractual instalment. The result is then rounded up to the closest inter number (i.e., CD 0.1 would be categorised as CD1). The process of rounding up results in a conservative CD measure and is a notable driver in the distribution of the advances between the various provision stage distributions.

The number and sequence of recent payments ("Recency") is also applied in estimating the ECL and the point of write off.

The table below indicates how CD is utilised to classify assets into the IFRS 9 stages.

| Contractual Delinquency | Explanation of categorisation | Outstanding Instalment | IFRS 9 Stage |
|---|---|---|---|
| CD 0 | Performing advances that are not past due and are within the contractual term. | 0 days | Stage 1 (no SICR) |
| CD 0 SICR | Performing advances that are not past due and are within the contractual term, but for which SICR has been identified. | 0 days | Stage 2 |
| CD 1 – 3 | Advances where up to 3 instalments have been missed, or where instalments have been received after their contractual date of repayment. | 1 – 90 days | Stage 2 |
| >=CD 4 | Advances where more than 3 instalments have been missed but where the write off requirements have not been met. | >=91 days | Stage 3 |

The advances within the Bank comprise a large number of small, homogenous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates per category of CD. These statistical analyses for purposes of IFRS 9 use as primary inputs the extent to which accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios. IFRS 9 statistical analyses also includes the use of forward-looking macroeconomic factors.

While default is not specifically defined by IFRS 9, the Bank has aligned the determination of default with its existing internal credit risk management definitions and approaches. This is defined as the point at which an account has a CD greater than 3, which is equivalent to 91 days past due. An account is considered to have cured, that is, to longer be in default, when arrears have been caught up to the point of being able to classify the account as CD3 or less.

***Write off***

In respect of write offs IFRS 9 states that "*An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a de-recognition event*".

The Bank has historically applied a conservative write off policy at an individual exposure level, where advances were written off in full if in arrears with more than 3 instalments due and no payment had been received in the preceding 5 months. There is however a reasonable expectation for recovery at a portfolio level post the above historic point of write off.

Whilst IFRS 9 does not determine whether the assessment of reasonable expectation of recovery should be made at an individual account level or at a collective portfolio level, the prevailing interpretation being applied by the external audit fraternity dictates that the determination should be made at a portfolio level. To comply with this interpretation, the Bank has revised its write off policy to the extent that there is no reasonable expectation of recovery at either a single account level or a combined portfolio level post the write-off point.

The Bank does not apply a partial write off policy at all, as in addition to the introduction of significant model complexity and significant tax risk, partial write offs could lead to the distortion of the profile of a portfolio of advances to customers.

The modelling impact of applying the write off criteria at a portfolio level is that no post write off recoveries are included in the determination of the loss given default ("**LGD**"), which increases the LGD. Any amounts actually recovered post write off will be recorded as post write-off recoveries and set off against the impairment charge included in profit and loss.

***Event driven management credit estimates***

Certain events/risks arise from time to time that may not be incorporated into the statistical forward-looking model. In such instances, the additional inclusions into the ECL are reviewed and approved by the MRC on a quarterly basis. These events, for which an amount was included in ECL, include:

- the introduction of and migration of the collection of loans to DebiCheck (authenticated collections) and the complete cessation of the use of non-authenticated early debit order system (referred to as NAEDO) from 1 November 2021. DebiCheck will have an impact on the collection of cash flows on loans and advances.
- The National Credit Amendment Act 7 of 2019, which has been enacted, but the required regulations setting out the application has not been published.
- The long-term impact that Covid-19 is predicted to have on collections and as such ECLs.

Both DebiCheck and The Credit Amendment Act form part of the stress testing scenarios, over and above the provisions already raised in this respect. (In respect of Debicheck, see "*Risks Factors – Risks related to the business and the industry of the Issuer – The Issuer operates in a highly regulated environment which is subject to change – Collection Methodologies*".)

<u>NCA and the National Credit Amendment Act</u>

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 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.

New Affordability Assessment Regulations came into effect in 2015 and are used when assessing applications for unsecured loans. The Review of Fees and Interest Rates, which capped consumer credit interest rates, administration fees and initiation fees was enacted on 6 May 2016, and the cap on level of Consumer Credit Insurance came into effect from August 2017.

The National Credit Amendment Act 7 of 2019 was signed into law during August 2019, with a commencement date still to be promulgated. This act focuses on the introduction of capped debt intervention measures to further alleviate household over-indebtedness of consumers by unscrupulous lenders. The act makes provision for consumers, who are earning less than ZAR7 500 per month with minimal asset value, to have access to debt intervention. It proposes that consumers may apply to the NCR for a debt intervention for existing, cumulative, unsecured debt of no more than ZAR50 000. The NCR will consider whether an identified consumer can pay his or her debt if the debt was re-arranged. This could include a longer repayment period, a limit on costs and other fees and a reduction in the interest rates. If, however, such arrangements would not enable the relevant consumer to repay the debts within a period of five years or such longer period as may be prescribed and such consumer meets all the criteria, the NCR may recommend to the National Consumer Tribunal of South Africa ("**NCT**") that the consumer's debt should be suspended for a period of up to 24 months, pending review, and possibly be extinguished in part or in full depending on changes in their circumstances.

The Bank tightened its lending criteria in 2018 for customers who earn less than ZAR7 500 a month and have less than or equal to ZAR50 000 in unsecured debt. The Bank has implemented a strategy to further reduce exposure to this population, by tightening its underwriting policies.

As a result of these amendments, the Issuer may need to further alter its credit risk appetite and to reassess whether to provide credit for new customers falling within this grouping. The Issuer also regularly assesses the level of provisioning in respect of these accounts.

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