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

BUSINESS AND RISK INFORMATION MEMORANDUM

relating to the Issuer's

ZAR25 000 000 000

Domestic Medium Term Note Programme

On 22 March 2016, the Issuer established its ZAR25 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 supplements thereto dated 5 November 2018 and 28 March 2022 (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 and which has been updated by a supplement thereto dated 28 March 2022 (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 29 June 2023 (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;
- information regarding the Company Secretary of the Issuer;
- information regarding the Debt Officer of the Issuer; 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.

Information Memorandum date: 29 June 2023

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GLOSSARY OF TERMS

"**ABHL"** 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 ABHL Group;

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

"**ABHL Group**" or the **"Group**" means ABHL and its wholly owned subsidiaries: (i) AIG, and (ii) African Bank as well as the Grindrod Group;

"**ABHL Integrated Report**" means the most recent integrated report of the ABHL Group available on the following website (www.africanbank.co.za under the "***Investors" – "Corporate Information" "Financial Reporting" "Financial Results" "African bank Group Annual Financial Results September - Integrated Report (web friendly version)"*** path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-financial-reporting/) and which is incorporated by reference into the Programme Memorandum;

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

"**Additional Tier 1 Capital**" means additional tier 1 capital for purposes of the Capital Regulations;

"**African Bank**" means African Bank Limited, registration number 2014/176899/06, a public company incorporated in accordance with the laws of South Africa, and registered as a Bank under the Banks Act and a wholly-owned subsidiary of ABHL;

"**African Bankers**" means employees of the ABHL Group;

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

"**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 ABHL, 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 ESG Report**" means the most recent environmental, social and governance report of the ABHL Group available on the following website (www.africanbank.co.za under the "***Investors" – "Corporate Information" "Environmental, Social and Governance Reports"*** path in such website at the following URL https://www.africanbank.co.za/en/home/environmental-social-and-governance-reports/);

"**Annual Governance Disclosures**" means:

- the most recent governance section of ABHL contained in the ABHL Integrated Report available on the following website (www.africanbank.co.za under the **"*Investors" – "Corporate Information" "Financial Reporting"*** path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-financial-reporting/); and
- the Annual ESG Report from time to time,

both of which are incorporated by reference into this Information Memorandum and each Relevant Programme Memorandum;

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

“**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 liquidity standards;

“**Boards**” means the ABHL Board and the African Bank’s Board;

“**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 - African Bank – Impairments*”);

“**Cell Captive**” means the specific and contractually ring-fenced cell consisting of all the insurance business introduced by African Bank 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 African Bank;

“**CIPC**” means the Companies and Intellectual Property Commission contemplated in the Companies Act;

“**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;

"**ECL**" means expected credit loss;

“**Excelerate**” or “**Excelerate strategy**” or “**Excelerate25**” means the comprehensive medium- to long-term strategy targeting delivery by FY25 for the ABHL Group adopted in FY21;

“**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;

“**FSLA Act**” means the Financial Sector Laws Amendment Act, 23 of 2021 as amended from time to time;

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

"**GCR**" means Global Credit Rating Co. Proprietary Limited (registration number 1995/005001/07);

“**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;

“**GFH**” means Grindrod Financial Holdings Limited (registration number 2005/019793/06), a public company incorporated in accordance with the laws of South Africa which is, at the Information Date, 100% owned by African Bank from 1 November 2022;

“**Grindrod Bank**” means Grindrod Bank Limited (registration number 1994/007994/06), a public company incorporated in accordance with the laws of South Africa and a registered Bank which is, at the Information Date, 100% directly and indirectly owned by African Bank from 1 November 2022;

“**Grindrod Group**” means GFH and its wholly owned subsidiary Grindrod Bank;

“**Group**” or “**ABHL Group**” means ABHL and its wholly owned subsidiaries: (i) AIG and (ii) African Bank as well as the Grindrod Group;

“**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;

“**ICAAP**” means the annual internal capital adequacy assessment process;

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

“**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;

“**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;

“**Participating Banks**” means Absa Bank Limited (which holds its investment in ABHL 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 Basel Pillar 3 Disclosures of African Bank and ABHL in terms of the Banks Act and the Regulations Relating to Banks available from time to time on the following website (www.africanbank.co.za under the “***Investors” – “Regulatory Announcements*** ” “***Basel Pillar III announcements***” path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-basel-pillar-iii-announcements/);

“**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;

“**RCMC**” means the Risk and Capital Management Committee of the Group;

"**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 which transferred part of its business and assets to the Issuer in 2016;

"**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, Government Notice 724 in Government Gazette 44003 of 18 December 2020, Government Notice 1427 in Government Gazette 44048 of 31 December 2020, Government Notice R943 in Government Gazette 46159 of 31 March 2022, Government Notice 2561 in Government Gazette 46996 of 30 September 2022 and Government Notice 2900 in Government Gazette 47789 of 23 December 2022), 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;
- 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;

"**Resolution**" bears such meaning as defined in the FSLA Act 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*";

"**Retail Deposits**" means deposits received by African Bank, 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;

"**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);

"**SME**" means small-and medium-sized enterprises;

"**SMMEs**" means small, medium, and micro enterprises;

"**SPLEC**" means a Special Projects and Large Exposures Committee, being a board committee established at ABHL level;

"**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 2 Capital**" means tier 2 capital for purposes of the Capital Regulations;

"**Ubank**" means Ubank Limited (under curatorship) (registration number 2000/013541/06), a public company incorporated in accordance with the laws of South Africa and a registered Bank which was placed under curatorship by the Prudential Authority on 16 May 2022; and

"**ZAR**", "**Rand**", "**R**" refers to the lawful currency of South Africa.

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 this Information 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.

ABH GROUP STRUCTURE DISCLOSURE

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

ABHL is the direct controlling company of the Issuer. AIG is a wholly-owned direct subsidiary of ABHL. The Noteholders do not have any recourse to ABHL or AIG or any income or assets which ABHL or AIG may have. As such, Noteholders should not rely in the creditworthiness of ABHL or AIG when assessing the creditworthiness of the Issuer and deciding whether or not to invest in the Notes.

While the most recent ABHL 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 ABHL Group as these do not fall within the income or assets of the Issuer. Other assets of ABHL and AIG, such as investment assets, also do not fall within the assets of the Issuer.

RISKS RELATED TO THE BUSINESS OF THE ISSUER

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

In addition to the descriptions in this section headed "*Risks Related to the Business of the Issuer*", a description of, the Issuer and ABHL and their businesses is set out in the ABHL Integrated Report for the financial year ended 30 September 2022 ("**2022 Integrated Report**"). Further information on ABHL Group specific risks (excluding the Grindrod Group) is set out in the section of the 2022 Integrated Report headed "*Our Risks and Opportunities*" on pages 85 to 88 inclusive of the 2022 Integrated Report. In particular, the 2022 Integrated Report categorises the 12 principal risks faced by the ABHL Group (excluding the Grindrod Group).

Further details of these 12 principal risks applicable to the ABHL Group (excluding the Grindrod Group) are set out in the Annual ESG Report for the financial year ended 30 September 2022 ("**2022 ESG Report**"), also under the heading "*Our Risks and Opportunities*" on pages 78 to 84 inclusive of the 2022 ESG Report.

Each ABHL Integrated Report (including the 2022 Integrated Report) and each Annual ESG Report (including the 2022 ESG Report) is incorporated by reference into each Relevant Programme Memorandum (see the section of each Relevant Programme Memorandum headed "*Documents Incorporated by Reference*").

Prospective Investors are advised that the 2022 Integrated Report and the 2022 ESG Report cover the financial year of the ABHL Group ended 30 September 2022 which is prior to the acquisition by African Bank of the Grindrod Group and certain assets and liabilities of Ubank, both of which were effective from 1 November 2022. (See "*Description of the Issuer –Business of the Issuer – Grindrod Bank*" and "*Description of the Issuer – Business of the Issuer – Acquisition of certain of Ubank Assets and Liabilities*".)

The description of Issuer-specific risks may be updated from time to time in the Integrated Reports of the Issuer and its consolidated subsidiaries for all financial years after the Programme Date. These Integrated Reports are also incorporated by reference into the Relevant Programme Memorandum (again see the section of the Relevant Programme Memorandum headed "*Documents Incorporated by Reference*").

CREDIT RISK

Credit Risk for the Issuer is the risk of suffering financial loss due to a borrower of the Issuer, counterparty to a derivative transaction with the Issuer, or an issuer of debt securities to a member of the Issuer defaulting on its contractual obligations.

Primary lending risk – unsecured lending

African Bank's personal loans 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 African Bank's customers or arising from systemic risk in the financial sector could reduce the value of African Bank's assets as a result of increased impairment provisions. In particular, African Bank's results of operations have been and will be affected by the level of impairment provisions applied to its advances portfolios. In addition, African Bank 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 African Bank seeks to grow its advances portfolio.

African Bank 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.

In addition, in FY23, African Bank acquired certain assets and liabilities of Ubank, (See "*Description of the Issuer –Business of the Issuer – Acquisition of certain of Ubank Assets and Liabilities*"), which assets predominately comprised unsecured personal loans servicing selected mining and rural communities. While the unsecured lending book acquired is to be integrated with and absorbed into African Bank's larger unsecured personal loan book, such loans have been advanced utilising Ubank's lending criteria and have targeted different retail markets to those in which African Bank has historically operated.

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 or an inaccurate assessment of risks when writing new business. Many factors affect the ability of the relevant 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 African Bank's control. If macroeconomic conditions in South Africa deteriorate further (whether due to the impacts of any new wide-spread outbreak of Covid-19, depreciation in the South African currency, rising interest rates, further sovereign credit-rating downgrades, socio-political instability, higher unemployment rates, persistent higher inflation levels in the local economy or other conditions), there can be no assurance that the level of African Bank's non-performing advances and credit impairment provisions will not increase. This, in turn, could have an adverse effect on African Bank'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 external factors deteriorate and customers fail to repay their loans as predicted, this could have a material adverse effect on African Bank’s business, financial condition, results of operations and prospects.

Primary lending risk – business banking

In pursuance of the Issuer’s Excelerate25 strategy to “*expand the core*” (see “*Description of the Issuer – Strategy of the Issuer”*), several new strategic initiatives have been and will be pursued by the Issuer with a view to diversifying the product offering to business banking generally as well as targeting a non-retail client base such as SMMEs and strategic corporate partners.

As part of this strategy African Bank acquired Grindrod Bank. (See “*Description of the Issuer –Business of the Issuer – Grindrod Bank*”.) In addition, albeit a less material part of its business, Ubank also made available various business loans of between R250 000 and R1 500 000 to SMME’s. (See “*Description of the Issuer – Business of the Issuer – Acquisition of certain of Ubank Assets and Liabilities*”). African Bank acquired such business loans as part of its acquisition of certain assets and liabilities of Ubank in FY23 and which business loans are to be integrated into African Bank’s business banking activities.

This expansion and these acquisitions have increased the avenues for primary lending risk through the introduction of different loan products, some of which are and will be secured lending products (as is the case with many of the loan products offered by Grindrod Bank). These new loan products also expose African Bank to customers which have a different credit risk profile.

The Issuer has and may in the future grant corporate financing where this is aligned to a broader strategic relationship with the relevant corporates (“**Corporate Borrowers**”). During FY22, African Bank granted its inaugural secured corporate loan to a strategic partner with a capital commitment limit of ZAR1.9 billion. The quantum of such corporate financing may in some cases result in concentration risks (see “*Concentration Risk*” below).

The business banking division is inherently exposed to credit risk, particularly the risk relating to the recoverability of business banking loans and loans to Corporate Borrowers. Changes in the credit quality of the business banking customers and Corporate Borrowers or arising from systemic risk in the financial sector could reduce the value of African Bank’s assets, resulting in increased credit impairments. Many factors affect the ability of such customers and Corporate Borrowers to repay their loans, including adverse changes in consumer confidence levels due to local, national and global factors, levels of consumer spending, bankruptcy rates, and increased market volatility. These factors might be difficult to predict and are completely outside of the Issuer’s control.

If business circumstances for SMMEs, corporate customers or such Corporate Borrowers deteriorate, the level of African Bank's non-performing loans may increase. This, in turn, could have an adverse effect on the Issuer's financial condition or results of operations.

Concentration risk

The Issuer's business is predominantly South African focused meaning that it is exposed to geographic concentration risk from an economic, political and social perspective. Any adverse changes affecting the South African economy, including contagion risk linked to adverse economic conditions in South Africa's main trading partners, may have an adverse impact on the Issuer's credit, market, liquidity, interest rate and operational risk exposures and, consequently, on its financial condition and the results of its operations.

Further, credit concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity.

This concentration risk typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions (for instance where a great proportion of customers of personal loan products are employed in the same sector which is vulnerable to retrenchments).

Concentration risk also arises in the context of large corporate loans made to Corporate Borrowers (see "*Primary lending risk – business banking*" above). In addition, the acquisition of certain assets and liabilities of Ubank has increased the exposure of African Bank to customers in those mining and rural communities serviced by Ubank.

The Issuer manages its concentration risk by reducing its exposure to sectors which it identifies as vulnerable and, in the case of single party exposures, by conducting a thorough due diligence investigation, applying financial covenants and tests to prove debt serviceability and taking security. It is also a regulatory requirement that exposure to a single obligator may not exceed 25% of the net qualifying capital and reserves of the Issuer or Grindrod Bank, as the case may be. Grindrod Bank has a formal policy in respect of "single obligor limits" which is included in both of the large exposure framework and credit policies of Grindrod Bank. The Credit and Large Exposure Committee of Grindrod Board is mandated to manage credit risk and approve large exposures between 10% and 25% of Grindrod Bank's qualifying Tier 1 Capital.

Counter-party credit risk

In addition to African Bank and Grindrod Banks' exposure to its borrowers (whether pursuant to its personal loan book or its business banking loan book) credit risk for African Bank and Grindrod Bank also arises in respect of:

- cash and term deposits of African Bank 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.

As at the Information Date, African Bank 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. Grindrod Bank also maintains deposits of cash with local financial institutions and as such is exposed to similar credit risk.

Surplus liquidity of African Bank and Grindrod Bank is also invested in South African sovereign debt instruments in order to manage the statutory capital requirement on South African bank issuers. The Issuer is therefore exposed to the credit risk of South Africa.

STRATEGIC RISK

Strategic risk is assumed due to potential changes in general business conditions, competitive market environment and strategy, and the risk of earnings variability, resulting in business revenues not covering operating costs after excluding effects of market, credit, and operational risks.

Strategic risk also refers to the risk inherent in the chosen strategies of the ABHL Group and the chance that these strategies may not result in the desired or planned outcome. These strategies in the context of the Issuer refer to products, channels, customer value offerings, partnerships (which is turn speaks to the Issuer's reliance on its selected partners, alliances and service providers), marketing and systems.

Strategic risk is therefore the possible source of loss that might arise from the pursuit of an unsuccessful business plan, making poor business decisions, substandard execution of decisions or inadequate resource allocation.

Strategy Execution and Change risk

An updated comprehensive medium- to long-term strategy for the Issuer (Excelerate25) has been developed by the management of African Bank and the Boards during FY21. (See "*Description of the Issuer – Strategy of the Issuer*".)

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.

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.

The Issuer may 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 Management*" for information on the Issuer's management of such risks.

Integration Risk

Integration risk emanates from African Bank's acquisition of Grindrod Bank and certain assets and liabilities of Ubank. (See "*Description of the Issuer –Business of the Issuer – Grindrod Bank*" and "*Acquisition of certain of Ubank Assets and Liabilities*".)

Although some of the steps required for integration of these businesses and assets into the business of African Bank have been implemented as of the Information Date, the practical challenges with respect to the transfer of the operational functions, employees and systems of Grindrod Bank and Ubank (to the extent acquired) and successfully managing the assets and businesses acquired and employees transferred, remain.

Any adverse effects resulting from a failure to properly manage the practical aspects of the integration of those acquisitions on the implementation of the Issuer's strategy could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

FUNDING AND LIQUIDITY RISK.

Funding and liquidity risk is the risk that the Issuer is unable to meet payment obligations as they fall due, leading to an inability to support business activity and meet liquidity requirements.

- Funding liquidity risk – when the Issuer is unable to fulfil payment obligations due to an inability to obtain new funding as required, particularly in the absence of sufficient available cash reserves; and
- Market liquidity risk – when the Issuer is unable to sell or transform liquid assets and term cash deposits into cash without incurring significant losses.

The Issuer is exposed to liquidity risk arising from the need to finance its on-going operations and growth. Liquidity risk also includes asset liability mismatch risk as it relates to the timing of inflows and outflows of funds. In a typical banking environment with a significant advances and deposit book, this asset and liability mismatch relates to the difference between short term funding (depositors' funds) against long term advances (secured and unsecured loans).

Access to sufficient funding at commercially acceptable pricing and from a diversified funding base is a business risk facing the Issuer, which could lead to pure liquidity risk. Notwithstanding the strategic initiatives of the Issuer to diversify its sources of funding via growing Retail Deposits and other initiatives, the Issuer will require continued access to wholesale funding in the medium and long term.

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.

Credit Rating

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 in accordance with the Applicable Procedures.

As at the Information Date, Grindrod Bank also has its own domestic medium term note programme and credit rating.

A downgrade of the Issuer's and/or Grindrod Bank'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/or Grindrod Bank and reduce access to capital markets and the profitability of the Issuer and/or Grindrod Bank all of which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

COMPLIANCE RISK AND REGULATORY AND CHANGE RISK

Compliance risk is the risk of regulatory sanctions, material financial loss, or loss to reputation that the entity may suffer as a result of its failure to comply with applicable legislation, regulations and standards.

Regulatory Risk

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 African Bank and/or Grindrod Bank if it fails to comply with certain regulatory requirements. A breach of the terms of a licence by any of the Issuer or its subsidiaries 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 or any of its banking subsidiaries, which may, in turn, affect the Issuer's or any of its banking subsidiaries' ability to fulfil its payment obligations, and would have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

Regulatory and Change Risk

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:

Resolution Framework

On 28 January 2022, FSLA Act was published, which act establishes 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. The FSLA Act will give effect to a deposit insurance scheme which will require banks to contribute to a fund based on the level of covered deposits, up to R100 000 per client deposit.

The Resolution regime in the FSLA Act, effective from 1 June 2023, will apply to all registered South African banks, including the Issuer and seeks to strengthen the ability of the SARB (as the Resolution authority) to manage the orderly Resolution or winding down of a failing financial institution, with minimum disruption to the broader economy. (For more of the powers of the SARB in respect of such orderly Resolution see "*Risks relating to the notes and markets generally" – "Regulatory action in the event the Issuer is failing, likely to fail or non-viable could materially adversely affect the value of the Notes.*) In addition, the FSLA Act seeks to ensure that depositors' funds are protected in the event of a bank failure, and that depositors' funds will be paid out speedily to protect the most vulnerable customers.

The FSLA Act sets out the extensive powers of the SARB in relation to the Resolution of a designated institution which will enable the SARB, under, subject to certain conditions, (i) to cancel an agreement that came into effect before the designated institution was put in Resolution, (ii) to suspend specified legal proceedings or arbitration proceedings to which the designated institution is a party, (iii) to suspend the institution of any claim for damages in respect of loss sustained by a person resulting from a cancellation of an agreement in terms paragraph (i), (iv) to suspend an obligation of a party to the agreement to which a designated institution is a party and (v) to

prohibit the commencement of specified legal proceedings or arbitration proceedings against the designated institution.

If the SARB determines that it is necessary for the orderly resolution of a designated institution in resolution that the designated institution enter into a particular transaction, the designated institution may enter into the transaction, and may do so despite any law or agreement that would otherwise restrict or prevent it from doing so, including a law or agreement that requires consent or approval by a specified person.

The SARB also has the power under the FSLA Act, subject to certain conditions, to exercise and perform its resolution powers in terms of the relevant part of the FSLA Act, and its associated powers, in relation to a liability of a designated institution in resolution in a way that results in the liability being substituted with a shareholding in the designated institution or in a bridge company.

The FSLA Act also provides that the SARB must not take resolution action in relation to a designated institution in resolution that would result in a creditor or shareholder of the designated institution receiving less than the creditor or shareholder would have received if the designated institution had been wound up.

Although the SARB has released a number of discussion papers providing more clarity on the SARB's possible approach to Resolution and other matters covered in the FSLA Act, 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

Consumer credit regulation has been tightened to provide stronger consumer protection under the NCA and includes Affordability Assessment Regulations for unsecured loans (2015), and the Review of Fees and Interest Rates (2016), which capped consumer credit interest rates, administration fees and initiation fees. Additional amendments to the NCA were enacted in 2019. These include increased powers of enforcement of the regulator, and additional mechanisms to assist vulnerable, over-indebted customers, and, inter alia, to provide for debt intervention for low-income earners within South Africa (earning less than or equal to R7 500). The combined impact of these reforms may restrict access to credit from formal credit providers for the lower income market, which may negatively impact demand for products and services provided by African Bank.

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 African Bank's advances) could have significant repercussions for African Bank's ability to continue to pursue its business model successfully and profitably given the historic concentration of African Bank's lending business to customers with lower and middle incomes, which could have a material adverse effect on African Bank's financial condition, results of operations and prospects.

Conduct Risk

With the introduction of the FSR Act, the FSCA was given the explicit mandate of regulating and supervising the conduct of banks in relation to the provision of financial products and services. As part of fulfilling this mandate and taking cognisance of various risks identified in the banking sector, the FSCA developed and issued the Conduct Standard 3 of 2020 (Banks) ("**Conduct Standard**").

The Issuer is obliged to comply with the Conduct Standard, which provides the framework for the FSCA's supervision of banks in relation to their provision of financial products and financial services and places an obligation on banks to conduct their business in a manner that prioritises the fair treatment of financial customers. Banks are expected to establish appropriate governance and controls to ensure the fair treatment of clients in providing financial products and services. The FSCA requires that banks are able to demonstrate that they consistently meet the requirements. As Conduct Standards is new legislation which will and has required the Issuer to build a customer-centric approach into its systems, this will take time to refine.

The Issuer's failure to comply with the applicable requirements in the Conduct Standard could lead to enforcement action being taken against the Issuer which could have a material adverse effect on the financial condition, results of operations and prospects of the Issuer.

SOLVENCY RISK

Solvency risk is the risk that African Bank will not have sufficient capital to meet materially adverse market conditions beyond that which has already been factored into the business model, primarily through its provisioning for ECL and as such is closely linked to its Credit Risk.

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. 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 ABHL 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 levels currently exceed all applicable regulatory requirements at the Information Date and/or expected in the short to 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 Issuer, 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 capital 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.

MARKET RISK

Market risk is the risk arising from changes in investment market values or other features correlated with capital markets, in particular changes in interest rates, foreign exchange rates and asset prices.

Interest Rate Risk in Banking Book

African Bank's key market risk is the interest rate risk in its banking book ("IRRBB"). Banking book-related interest rate risk exposure principally includes managing the potential adverse effect of interest rate movements on banking book earnings and economic value of equity. The composition of African Bank'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, money market and core income funds earning either prime- or JIBAR-linked (variable-rate) rate returns on investment balances;
- its liability portfolio is comprised of fixed-rate funding and variable-rate instruments; and
- it has a growing Retail Deposit portfolio that comprises predominantly fixed-rate term up to 5 years and notice deposits.

Grindrod Bank's balance sheet is comprised mainly of variable-rate secured SME loans across the following lending products:

- overdrafts;
- term loans;
- mortgage-based lending;
- invoice discounting; and
- preference share funding.

Its other main assets (outside of its banking book) comprise:

- its high-quality liquid asset (HQLA) portfolio comprised of fixed-rated assets through investment in South African sovereign debt instruments (such as Treasury Bills); and
- its excess cash deposited with the SARB up to its quota limit at the Repo Rate as well as with financial institutions providing a variable rate of return.

Grindrod Bank's main funding liabilities are a mix of fixed and variable rate exposures in that:

- notes issued under Grindrod Bank's JSE-listed domestic medium term note programme are variable rate notes (linked to 3-month JIBAR).
- its call-deposit and notice deposit savings products are offered at both fixed and variable rates.

Grindrod Bank also does not have a significant risk appetite for interest rate risk in the banking book and manages this on an overall portfolio basis.

INFORMATION TECHNOLOGY, INFORMATION SECURITY, AND CYBER-CRIME RISKS

The Issuer's technology risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of technology by the Issuer. It consists of technology-related events and conditions that could potentially impact the business of the Issuer including but not limited to technology changes, updates or alterations, digital services and cloud computing. A key consideration within technology risk is the Issuer's strategic focus to effectively adopt and use technology to achieve business objectives and be competitive.

The Issuer's main technology risks include the failure or interruption of critical systems, cybercrime, unauthorised access to systems, failure or exposure of a third-party service provider used by the Issuer and the inability to serve its customers' needs in a timely manner.

Information Technology Risk

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, African Bank's lending platform is enabled and supported by an IT system, designed for African Bank's business model, and is a core element of African Bank's credit scoring process. Further, the transactional banking platform implemented by African Bank is heavily IT-dependent.

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.

Information Security and Cyber-Crime Risk

As is the case for all businesses, the Issuer has to continuously assess its ability to preserve 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.

See "*Description of the Issuer – Risk Management – Cyber-Crime and Information Technology Risk Management*" for information on the Issuer's management of such risks.

Data Management Risk

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). See *"Description of the Issuer – Risk Management – Cyber-Crime and Information Technology Risk Management – The POPI Act"*.

The POPI Act has 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, African Bank

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.

INSURANCE RISK

Insurance risk within the context of African Bank's business relates to the level of African Bank's debt recovery rates in respect of customers' credit life insurance covered by Guardrisk insurance. This in turn 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 African Bank 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.

MODEL RISK

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. 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.

Model Uncertainty Risk

Model uncertainty 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 Use Risk

Model use 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 ABHL Integrated Report).

The areas within the Issuer which are affected by model risk include the credit, collections, finance, treasury and balance sheet management functions. The MRC reviews 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.

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 risk encompasses:

- Statutory reporting (including in financial reporting standards) and tax risk;
- Business continuity risk;
- People risk;
- Transaction processing and execution risk;
- Internal fraud risk;
- External Fraud Risk;
- Physical security and safety; and
- Legal risk,

but excludes strategic and reputational risk.

Operational risk is the 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.

Dependency on its directors, senior management team and key personnel and its ability to recruit and retain them.

People risk pertains to the Group's ability to ensure an attractive employee value proposition, maintain a stable labour force environment and high-performance culture.

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.

Disruptions 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. 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.

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

REPUTATIONAL RISK

Reputational risk is a stakeholder-wide risk and encompasses the risk of damage to the Issuer's brand arising from any association, action, transaction, investment, or event which is perceived by stakeholders (i.e., customers, clients, colleagues, shareholders, regulators) to be inappropriate or unethical.

A risk of loss resulting from damages to an entity's reputation can result in lost revenue, increased operating, capital or regulatory costs or destruction of shareholder value, consequent to an adverse event which affects the entity, whether the event is the result of the relevant entity's actions or not.

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. 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.

There is also a link between reputational risk and liquidity risk. The ability of the Issuer to attract customers and funding providers alike is dependent on maintaining a good reputation amongst clients and funding providers.

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.

AML RISK

The Issuer is exposed to the risk that it is used to facilitate the proceeds of financial crime as a result of the type of customers, the complexity and nature of the business, and the distribution channels used to service customers. This may undermine market integrity, resulting in regulatory breaches and/or detriment to clients, customers, counterparties, or employees.

Terrorism Financing Risk, Sanctions Risk and Proliferation Financing Risk

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.

The financing of proliferation refers to the risk of providing funds or financial services used for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

The Issuer has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering, terrorist financing and proliferation financing activity. 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.

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.

SUSTAINABILITY RISK

Sustainability Risk stems from a failure to implement responsible operational and lending practices to effectively manage and report the impact of the Issuer's direct and indirect impact on the environment, society, and geographies it operates in.

Social risk arises from activities that affect the communities around the business of the Issuer and the ABHL Group. Social impacts associated with activities conducted through a business relationship with customers and other stakeholders as a result of financial exposure, lending/financing, investment and equity interest may lead to a risk of legal or regulatory sanctions, material financial loss or reputational damage. The Issuer may suffer in any of these aspects because of its customer or stakeholder organisation's failure to comply with all applicable laws, regulations and/or supervisory requirements. Social risks include product responsibility and inclusion issues, labour-related issues, occupational health and safety, community involvement, community security, human resettlement and human rights. These risks could lead to criminal sanction, termination of operations or production losses, and subsequently pose a financial, reputational or credit risk to the Issuer.

Environmental risk is defined as the impact of the natural environment on business as well as the impact and dependencies of the business on the environment and natural capital. These impacts can manifest in legal or regulatory requirements, material financial losses, operational costs, physical damage, credit risk or loss of reputation that a financial institution may suffer because of an Issuer's failure to comply with responsible environmental practices, laws, regulations, rules, related self-regulatory organisational standards and codes of conduct applicable to its activities.

Climate risk, a subset of environmental risk, is defined as a risk resulting from climate change, causing:

- an increase in physical risks (stemming from increased incidences of natural disasters);
- transition risks (resulting from changes in laws, regulations or customer preferences); and
- third-party liability risks (due to non-compliance with climate regulations).

The impact of climate change is expected to prompt substantial structural adjustments to the global economy. Several sectors, such as fossil fuels, are expected to experience disruption from changes in investor or end-user preferences, or changes in regulations, whilst others, such as renewable energy and other green energy sources, and carbon capture and adaptation technologies, are likely to benefit. Such fundamental changes will inevitably impact the balance sheets and operations of banks, leading to both risks and opportunities. Regulators are beginning to act, and investors, clients and civil society are looking for actions, mitigation, adaptation and transparency on the issue.

These risks can also impact other factors such as:

- Reputational Risk arising from association with negative environmental and social impacts;
- Market and liquidity arising from dislocations and shifts in market appetite with regards to the type of assets funded;

- Credit Risk arising from an impact on customers' ability to pay, impaired collateral values mainly driven by an increase in physical risks (e.g., drought or property damage) or transition risks (lower demand of product);
- Legal risk arising from regulatory sanction or reputational damage may occur as a result of the Issuer's approach to environmental risk;
- Policy risk due to the impact of new requirements, such as the impact of carbon taxes, prudential requirements and emissions reporting;
- Substitution of a client's existing products and services with lower-emission options, or the unsuccessful investment in new technologies; and
- Disruptions to the Issuer's operations, infrastructure, workforce, processes and supply chain may result from acute environmental events,

each or any of which could result in a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

MACROECONOMIC RISKS

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 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 personal loan customers, who generally have relatively modest incomes, are particularly affected by macroeconomic factors, 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.

In addition, Eskom's continued electricity supply shortages have been disruptive to economic activity in general, but particularly on the manufacturing sector, and businesses, including existing and prospective customers of Grindrod Bank and prospective business banking customers.

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 any of the Issuer's customers

or other borrowers could 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 United States of America 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 other borrowers 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.

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 pricing 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.

The FSLA Act was published on 28 January 2022 and amended 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. The effective date of the sections of the FSR Act (as amended by the FSLA Act) which provide for such Resolution regime is 1 June 2023.

In the FSLA Act, 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. The SARB is also 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 in the Programme (other than the Programme Amount in respect of the issue of Notes) on the number or 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 and/or the Programme 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.

EU Savings Directive, U.S. Foreign Account Tax Compliance Withholding, EU Savings Directive and Other Withholding Tax Obligations

Generally, if, pursuant to the European Council Directive 2003/48/EC on the taxation of savings income and/or the US Foreign Account Tax Compliance Act, a withholding or deduction obligation is imposed on a Note, none of the Issuer, any Paying Agent (as defined in the Applicable Pricing Supplement) or any other person will be obliged to pay additional amounts with respect to such Note as a result of the imposition of such withholding tax.

Purchasers are advised to consult their own professional advisers as to the tax consequences of investing in the Notes, including any withholding tax consequences and the effects on such a purchaser of there being no obligation on the Issuer, the Paying Agent or any other person to pay additional amounts in respect to Notes where a withholding obligation is imposed.

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 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 Applicable 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 Applicable 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.

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.

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 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 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 Capital instruments ("**Additional Tier 1 Instruments**") and Tier 2 Capital instruments ("**Tier 2 Instruments**") issued

by an internationally-active bank must have a provision that requires such instruments, at the option of the Relevant Regulator, 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 Additional Tier 1 Instruments 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 Regulator; 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 Regulator.

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 unless a duly enforceable SLAR is in place.

The SARB has provided some clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in, amongst others, Guidance Note 6 of 2017 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) ("**Guidance Note 6**"), paragraph 1.3 of which provides that the SARB will continue to monitor international developments around loss absorbency requirements, and if necessary, will issue further guidance.

No official statement has however been made as to when the SLAR will be implemented in South Africa. However, in January 2022, the FSLA Act, which provides the legislative framework for the orderly Resolution of banks and other systemically important institutions was promulgated, effective from 1 June 2023. Under the FSLA Act, the SARB will have 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 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.

Until there is clarity on how the SLAR will be implemented, 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 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.

The terms and conditions of Tier 2 Notes issued under the Programme accordingly provide for the write-off or Conversion of such Notes at the discretion of the Relevant Regulator upon the occurrence of a trigger event. 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 but subject to such minimum requirements of the Statutory Loss Absorption Regime required to ensure that such Notes continue to qualify as Tier 2 Capital.

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 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) Additional 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.

A trigger event in relation to Tier 2 Instruments in the Capital Regulations is described as being, at a minimum, the earlier of:

(d) a decision that a write-off, without which the Issuer would become non-viable, is necessary, as determined and notified by the Relevant Regulator; or

(e) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined and notified by the Relevant Regulator.

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.

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 2022 is referred to as Financial Year 2022 or FY22.

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.

Historical Financial Information

Investors and prospective investors should refer to the most recent financial statements and ABHL Integrated Report available at the relevant time (which are incorporated by reference into the Relevant Programme Memorandum). These financial statements and ABHL Integrated Reports are available on the following website (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Financial Reporting***" path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-financial-reporting/).

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.

Where the Issuer has obtained certain statistical and market information from the third-party sources, the Issuer takes responsibility for the accurate reproduction of such information. 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.

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. As at the Information Date, the Issuer has not issued any Additional Tier 1 Capital and does not have any Tier 2 Capital in issue.

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

PRIMARY SOURCES OF FUNDING AVAILABLE TO AND LIQUIDITY OF 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 ABHL Integrated Report available at the relevant time. These financial statements and the ABHL Integrated Reports are available on the following website (www.africanbank.co.za under the *"**Investors" – "Corporate Information" "Financial Reporting**"* path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-financial-reporting/*)*.

CANCELLATION OF THE SHAREHOLDER LIQUIDITY SUPPORT

The Issuer announced in September 2020, that it had entered into a shareholder support and assistance arrangement with the shareholders of ABHL (the "**Support Arrangement**").

In terms of the Support Arrangement, the shareholders of ABHL undertook to provide certain support facilities to African Bank over a period of three years and four months, commencing on 1 December 2020 and ending on 31 March 2024 (the "**Support Period**"). The support facilities were in proportion to the shareholders' respective shareholdings in ABHL, up to a maximum cumulative amount of R8 billion over the Support Period. It was agreed that the aggregate support available from shareholders would 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.

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

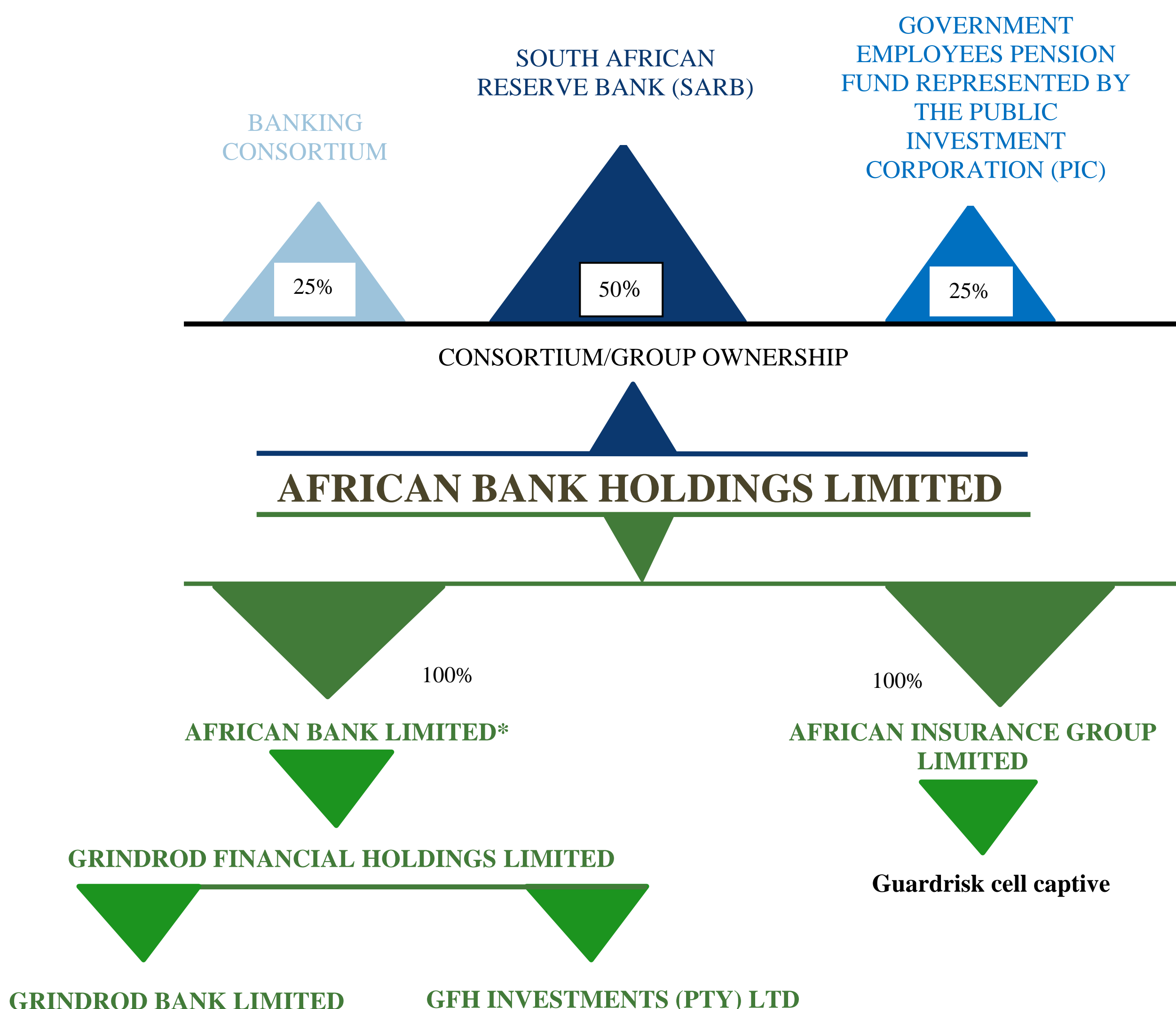
Over the course of FY21 and FY22, African Bank demonstrated that it could successfully raise funding in the wholesale funding market without calling on assistance from the shareholders in terms of the Support Arrangement. Three oversubscribed public auctions took place over this period, included a 5-year Notes issuance, demonstrating the wholesale market's confidence in African Bank and the market's willingness to fund African Bank beyond the end of the Support Period. African Bank was of the view that the Support Arrangement had served its intended purpose as an enabler to give the capital markets confidence to support African Bank in its

fund-raising activities. As a result and with effect from 1 October 2022, African Bank and the ABHL shareholders agreed to cancel the Support Arrangement.

DESCRIPTION OF ABHL GROUP

INTRODUCTION TO THE ABHL GROUP

The ABHL Group consists of: (i) ABHL as the Group holding company and a controlling company in respect of the Issuer; (ii) ABHL's two direct wholly-owned subsidiaries, the Issuer and AIG, as the holder of the Cell Captive Shares and (iii) ABHL's three indirect wholly-owned subsidiaries being GFH, Grindrod Bank and GFH Investments Proprietary Limited (the latter company being dormant entity and in the process of deregistration at the CIPC).



*African Bank owns 100% of the Preference Shares in Grindrod Bank

ABHL SHAREHOLDER STRUCTURE

All of the ordinary shares in ABHL 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 ABHL).

During FY20, the SARB announced that it intended to relinquish its shareholding in ABHL after previously publicly stating that it was never the SARB's intention to hold this equity stake indefinitely, particularly because its shareholding creates a potential conflict of interest between its role as a regulator of African Bank and ABHL and as the majority shareholder of ABHL. In the same year, the SARB appointed advisors to commence the SARB's divestment process and to identify a shareholder or shareholders who are better aligned to the Group's strategy and longer-term growth aspirations. On 1 June 2021, the SARB announced the extension of an invitation to interested local and international parties to submit their formal expressions of interest. After due consideration, the SARB concluded in March 2022 that none of the interested investors would be suitable to acquire the SARB's shareholding in ABHL at that stage.

The SARB continues to work closely with ABHL and the rest of the shareholders to consider an alternative exit option of an initial public offering (IPO). During October 2022 the two largest shareholders of ABHL, the SARB and the GEPF, approved ABHL's initial public offering (IPO) mandate which is aligned to the vision of the Group to become a listable entity in the foreseeable future.

The ability of ABHL to achieve its vision of listing ABHL is intrinsically linked to the Issuer's ability to deliver on its Excelerate strategy.

OVERVIEW OF THE VARIOUS ENTITIES COMPRISING THE ABHL GROUP

African Bank Holdings Limited

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

All of the ordinary shares in ABHL 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).

African Insurance Group Limited

African Insurance Group Limited (registration number 2014/177424/06) ("**AIG**") is the intermediate holding company for all the insurance interests in the ABHL 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 ABHL.

The Noteholders do not have any recourse to ABHL or AIG or any income or assets which ABHL or AIG may have. As such, Noteholders should not rely in the creditworthiness of ABHL or AIG when assessing the creditworthiness of the Issuer and deciding whether or not to invest in the Notes.

While the most recent ABHL 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 ABHL Group as these do not fall within the income or assets of the Issuer.

African Bank Limited

The Issuer is a direct, wholly-owned subsidiary of ABHL 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). It is the largest operating subsidiary in the ABHL Group.

With effect on 1 November 2022, African Bank acquired 100% of the ordinary shares in GFH and 100% of the preference shares in Grindrod Bank.

More detail about operations and business model of African Bank is included in the section of this Information Memorandum headed "*Description of the Issuer*".

Grindrod Financial Holdings Limited and Grindrod Bank Limited

Grindrod Financial Holdings Limited (registration number 2005/019793/06) ("**GFH**") holds all of the ordinary shares in Grindrod Bank Limited (registration number 1994/007994/06) ("**Grindrod Bank**") as well as in the entire issued ordinary share capital of GFH Investments Proprietary Limited which is a dormant entity and in the process of being deregistered.

As at the Information Date, GFH is the registered bank controlling company in respect of Grindrod Bank in accordance with the Banks Act.

More detail about GFH and Grindrod Bank is included in the section of this Information Memorandum headed "*Description of the Issuer – Business of the Issuer – Grindrod Bank*".

BOARD AND CORPORATE GOVERNANCE STRUCTURES IN THE ABHL GROUP (EXCLUDING THE GRINDROD GROUP)

As at the Information Date, Grindrod Bank and GFH continue to function as separate legal entities with their own board, board committees and board policies. It is anticipated that this will continue for the short-to-medium term until the business of Grindrod Bank has been fully integrated with the business of African Bank and transferred to African Bank. Information regarding the GFH and Grindrod Bank governance structures are set out in the section below headed "*Board and Corporate Governance Structures in the Grindrod Group*".

For information on the composition of the Issuer's Board, investors and prospective investors are referred to Directors Information Sheets available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information" "Debt investor information"*** path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-debt-investor-info/).

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

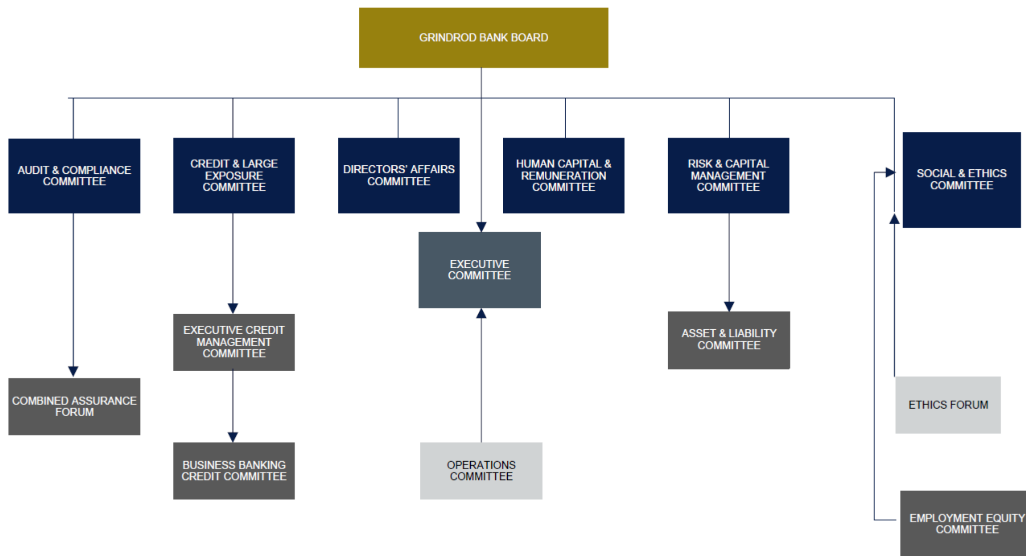
- a Group Remuneration Committee;
- a Group Sustainability, Ethics and Transformation Committee;
- a Directors' Affairs and Governance Committee; and
- a Special Projects and Large Exposures Committee.

Each board of directors within the ABHL 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. Each of African Bank and AIG manages their respective businesses in the context of the Group risk parameters and policies established by the ABHL Group risk committees from time to time.

For information on the permanent board committees as well as the sub-committees of the RCMC, investors and prospective investors are referred to Annual Governance Disclosures published by the ABHL Group from time to time.

BOARD AND CORPORATE GOVERNANCE STRUCTURES IN THE GRINDROD GROUP

The structure below illustrates the composition of Grindrod Bank board and its subcommittees.



It is anticipated that Grindrod Bank and GFH will continue to function as separate legal entities with their own board, board committees and board policies for the short-to-medium term until the business of Grindrod Bank has been fully integrated with the business of African Bank and transferred to African Bank.

DESCRIPTION OF THE ISSUER

HISTORY AND OVERVIEW

African Bank Limited (the "**Issuer**" or "**African 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 certain parts of the business and assets of RDS and only commenced business on 4 April 2016.

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.

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 pursuant to which the Issuer sought out the most viable path for a longer-term sustainable future that did not depend solely on a single unsecured lending product offering and in 2016 set out a five-year strategy aligned to this which focused on:

- changing its inherited operating model from a relatively manual, branch-based, information technology-enabled model to become a predominantly digital bank, culminating in the launch by the Issuer of its transactional banking offering, known as the *MyWORLD* account. (See the section *"Description of the Issuer – Business of the Issuer – Transactional Banking*");
- diversifying its funding base, targeting Retail Deposits of up to five years;
- the governance and risk management structures and processes established within the ABHL Group;
- refining and recalibrating its credit scorecard. (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 ABHL Integrated Report at the relevant time.); and
- reviewing the provisioning methodologies of the Issuer (See "*Description of the Issuer – Risk Management – Credit Risk Management –African Bank*" and *Credit Risk Management –Grindrod Bank*".)

In FY21, an extensive strategy review was undertaken, the outcome of which was a restated vision and a new Excelerate25 strategy– further details of which are set out below in the section headed "*Description of the Issuer – Strategy".*)

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 ABHL, which is a registered bank controlling company. The Issuer has, with effect on 1 November 2022, acquired GFH and Grindrod Bank as subsidiaries. There is also a dormant companies acquired as subsidiaries, GFH Investments Proprietary Limited (a direct dormant subsidiary of GFH).

Each of the Issuer (and its subsidiaries) and ABHL is subject to the regulation of the Prudential Authority of the SARB.

All of the ordinary shares in ABHL are owned in the following proportions:

- SARB: – 50%;
- GEPF: – 25%;
- Absa Bank Limited*: – 4.95%;
- Nedbank Limited: – 4.10%;
- FirstRand Bank Limited: – 6.55%;
- Investec Bank Limited: – 2.45%;
- The Standard Bank of South Africa Limited: – 5.95%; and
- Capitec Bank Limited: – 1.00%.

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

During FY20, the SARB announced that it intended to relinquish its shareholding in ABHL after previously publicly stating that it was never the SARB's 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 the majority shareholder of ABHL. In the same year, the SARB appointed advisors to commence the SARB's divestment process and to identify a shareholder or shareholders who are better aligned to the Group's strategy and longer-term growth aspirations. On 1 June 2021, the SARB announced the extension of an invitation to interested local and international parties to submit their formal expressions of interest. After due consideration, the SARB concluded in March 2022 that none of the interested investors would be suitable to acquire the SARB's shareholding in ABHL at this stage.

The SARB continues to work closely with ABHL and the rest of the shareholders to consider an alternative exit option of an initial public offering (IPO). During October 2022 the two largest shareholders of ABHL, the SARB and the GEPF, approved ABHL's initial public offering (IPO) mandate.

STRATEGY OF THE ISSUER

Following from an extensive and intensive strategy review during FY21, a restated vision and the Excelerate25 strategy was approved which is intended to be in place up to the end of FY25.

The Issuer continues to describe its purpose as "*Advancing lives through financial and related services*" which is linked to the ABHL Group's broader vision of being "*an African Bank for the people, by the people and serving the people*". To support its purpose and vision, in April 2022 the ABHL Group added the following mission statement: "*We are building a customer centric, digital and data-enabled business that will be scalable, diversified and sustainable with a compelling listing proposition*".

In pursuing its strategy, the Issuer relies on a two-pronged approach namely:

- *strengthening the core* business of the Group by:
    - *Digitisation* – Building on existing digital and analytics capabilities to improve end-to-end customer journeys and drive growth;
    - *IT systems* – enhancing the technology platform and cybersecurity practices, while improving speed of delivery;
    - *Sales Transformation* – delivering a front-line sales programme to increase cross-sell and drive growth; and
    - *Distribution* –optimisation the branch footprint through additional distribution opportunities; and
- *expanding the core* business of the Group by:

- updating the Group's product range and customer reach through partnering with financial technology companies (fintechs), non-bank financial institutions and telecommunication companies increasing the Group's customer base and market segments; and
- building a fully-fledged middle-of-the-pyramid business banking offering that is digital at its core, an ecosystem driver, and a platform business offering beyond-banking services.

The foundation and practical implementation of the Excelerate25 strategy relies on (i) digital ways of working, (ii) sustainability levers and (iii) the Group's values.

Digital ways of working focus to embed new ways of working across the Group and building relevant capabilities, skill sets and partnerships.

The five sustainability levers are entrenched into the Group's Excelerate25 strategy and permeate the Group's day-to-day business activities and serve to inform its strategic choices and actions which are focused towards fulfilling the broader organisational purpose. These sustainability levers are:

- **customer satisfaction lever**: "*reminds us that for African Bank to be sustainable and future-fit, our customers will always remain at the centre of all that we do. This lever measures customer satisfaction through both external, independent surveys and through the growth of our customer base*".
- **social responsibility lever:** "*revolves around our African Bankers. It ensures our African Bankers develop and thrive within the company and continue to drive corporate social initiatives within the communities where we live and work in. This lever measures staff engagement and the time devoted to community outreach programmes".*
- **financial resilience lever**: "*enables us to continue to create value not only for the organisation, but for our funders, shareholders, broader stakeholder base and future shareholders. This lever measures our financial performance and, through solid and consistent results, allow us to contribute holistically to our customers, our African Bankers, our communities and our partners".*
- **inclusivity lever:** "*talks to our partnerships, enterprise and supplier development objectives and transformation goals. This lever promotes inclusive growth and development within our organisation and for the benefit of the retail banking sector. It measures the achievement of our transformation imperatives and the focussed investment in enterprise and supplier development*".
- **environmental protection lever:** "*promotes greater awareness of regarding the role we have to play in protecting the environment we live in for ourselves and future generations. This lever requires us to do our part in mitigating the impacts of climate change both directly through waste and carbon management and, in the medium-term, indirectly through new product and service offerings linked to the green economy.*

The Group's values are:

- Sustainability;
- Creativity;
- Transparency;
- Collaboration;
- Empathy; and
- Excellence.

For more details on the Issuer and the Group's strategic targets and performance measures, investors and prospective investors should refer to the most recent ABHL Integrated Report.

DELIVERING ON THE STRATEGY

The strategy of the Issuer is implemented against set targets for FY25 and its delivery is measured through a series of key performance indicators that align with the performance aspirations of the ABHL 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.

Performance against these indicators is reported to the market at an ABHL level semi-annually as part of the release of interim and final financial results of ABHL Group.

To ensure that the strategy and targets remain relevant, the Group assess will assess both of these on an annual basis.

BUSINESS OF THE ISSUER

Introduction

The Issuer, as a registered bank under the Banks Act, continues to offer 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.

Since 2016, the Issuer focussed on setting itself up and on delivering on its mission set in 2016 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 was the introduction of a range of transactional banking products under the *MyWORLD* platform. For further information in this regard see "*Description of the Issuer – History and Overview*" above.

At the end of FY22, African Bank's diverse retail banking product portfolio consisted of 4 main product portfolios:

- daily transactional banking, through bank accounts that are designed to be shared;
- savings and investments;
- personal loans; and
- globally accepted, instant issue credit cards.

These are supplemented with ancillary products such as insurance in the form of funeral plans and credit life insurance on all African Bank's credit products.

Since the end of FY22 and in pursuance of the Excelerate25 strategy described above to "*strengthen the core*" and to "*expand the core*" (see "*Description of the Issuer – Strategy of the Issuer"*), there are also several new strategic initiatives aimed towards diversifying the product offering to non-retail client base, including to SMMEs of products beyond unsecured lending and to corporates pursuant to special projects in respect of strategic relationships.

As part of the strategy to "*expand the core*", the Business Banking division was established in FY22. Grindrod Bank, which already operated in the business banking and property finance markets, was acquired on 1 November 2022. The acquisition of the assets and liabilities of Ubank, effective 1 November 2022, allowed African Bank to further expand its customer and retail deposit base, and hence "*strengthen the core*" further.

The management team of the Issuer continuously assesses its 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 Issuer. Since the launch of the Issuer, 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 Issuer believes it fits squarely into its purpose of making a positive difference to its customers' financial lives.

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

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 Issuer'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 African 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 African Bank, a previously mono-line product provider. The wider offering therefore gives African Bank an opportunity to retain its existing loan customers, while allowing Savings and Investment customers to now hold transactional banking accounts with African Bank.
- Customer data – Transactional banking not only increases African Bank's customer base, but also provides African 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 African Bank to refine its customer strategy.

Personal loans

African Bank 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 African Bank's loans will continue to require individuals to have a bank account in South Africa. The loan products originated by African 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 ABHL Integrated Report.

Credit cards

African Bank offers a single credit card product to its customers linked to the *MyWORLD* platform. The product is aimed to assist customers with their everyday spend, planned or emergency situations.

Credit life insurance

African Bank offers credit life insurance to African Bank's customers who have been issued with a personal loan or credit card. The insurance policies sold by African Bank cover a customer's outstanding credit obligation on African Bank's loans to that customer for the duration of the loans, in the event of that customer's death, disability or retrenchment (essentially a form of dismissal or redundancy where the employee is dismissed as a result of the economic or other requirements of the employer and through no fault of the employee).

The underwriting risk in the insurance portfolio in respect of loans granted by African Bank is retained within the cell captive arrangement (described below in the section of this Information Memorandum headed "*Cell Captive Arrangement*").

Funeral insurance

African Bank 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 African Bank to its customers in respect of loans granted by African Bank is undertaken by Guardrisk. In this regard, African Bank has entered into the required intermediary, binder and/or outsourcing agreements with Guardrisk pursuant to which African 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 African 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 ABHL (with ABHL being the direct parent of both African Bank 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 over many 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

African Bank 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 African Bank targeting term Retail Deposits of up to 5 years.

During FY17, African 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 African Bank's funding base and are intended to provide an attractive alternative investment option for private retail investors wishing to diversify their investment portfolio.

Retail deposits now also include a growing transactional banking deposit base in the *MyWORLD* customer account balances.

Since the introduction of the Retail Deposit business, African Bank has achieved significant success in growing its Retail Deposit book. This growth in Retail Deposits is aligned with African Bank's strategy to diversify its funding base. As at the Information Date, the Retail Deposit book constitutes and remains targeted to constitute well over half of African Bank's funding base.

Investors and prospective investors should refer to the most recently published financial statements of African Bank and ABHL 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 African Banks's funding base.

Operational Channels

With the full implementation of African Bank's Omni-channel (a custom-built IT platform), African Bank's customers are able to access African Bank's products and services and switch seamlessly across African Bank's complementary channels (including through African Bank's website, African Bank's banking app, African Bank's cell phone banking functionality, African Bank's contact centre (voice to voice) and its branch network (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 African Bank internally, allowing African Bank to realise processing efficiencies over time and longer-term cost savings.

As a result of the investment and development of African Bank's direct sales and digital channels, customers are increasing accessing African Bank's remote services and channels. Notwithstanding this, at the Information Date, the branch network remains the key channel through which African Bank provides sales, service and advice support to customers.

All operational channels are all supported by the corporate office personnel of the African Bank which, *inter alia*, ensures appropriate levels of funding, liquidity and capital throughout African Bank and holds excess capital and liquidity.

Business Banking Division, Financing to SMMEs and Strategic Corporate Partners

Pursuant to the Excelerate25 strategy:

- to have a more diversified financial services business offering, and
- to "*expand the core*" by increasing African Bank's customer base and market segments.

African Bank launched its Business Banking division. The acquisition of Grindrod Bank with effect on 1 November 2022 will hasten the development of the Issuer's capacity to service businesses and SMMEs.

The Group intends to update African Bank's product range and customer reach by building a fully-fledged business-banking offering, targeting the middle-of-the-pyramid-business customer base, with an offering that is digital at its core, becoming an "ecosystem driver" that helps entrepreneurs generate revenue and grow business through banking products offered; as well as a platform that will enable entrepreneurs to outsource administrative tasks that take them away from their revenue generating activities. The targeted administrative tasks for outsourcing are amongst others accounting, tax management, payroll, industrial relation, regulatory compliance, recruitment, funding. and a platform business offering beyond-banking services.

African Bank has actively worked and will continue to work to identify businesses in the corporate space with which to collaborate as strategic partners. These strategic partnerships enable the Issuer to provide added value and efficiencies to its customers in its product offerings, and their interactions with it.

Where a precondition of such collaboration requires financial investment (such as the advancing of corporate financing), African Bank is willing to make such advances, subject to such funding being made available after the necessary due diligence and on terms (including as to security and appropriate financial covenant) as are acceptable to African Bank. The quantum of such corporate financing may in some cases result in concentration risks (see "*Risk Factors – Risks related to the Business of the Issuer- Credit Risk - Concentration risk*").

The inaugural issuance of a corporate loan to a strategic partner totalling ZAR1.9 billion in FY22, granted as part of a strategic partnership arrangement, was aimed at expanding African Bank's product range and enhancing its customer value proposition.

Acquisition of certain of Ubank Assets and Liabilities

Ubank operated as a registered Bank and financial services provider with a strong presence across selected mining and rural communities.

Its main product offering comprised personal loans including in the form of a debt-consolidation loan product, which enabled customers to take out one loan to pay off others already incurred like personal loans, retail store balances, tertiary fees and other similar types of debt. Ubank also offered various transactional and saving account products to its customers. These products fell within Ubank's "*Banking for U*" product offering.

In addition to providing personal loan products and bank accounts to customers, Ubank also offered business banking to SMME's, and made available various business account options including to associations and clubs, close corporations, companies, sole proprietorships, partnerships and trusts. In addition, through its "*uLend*" product, it provided business loans of between R250 000 and R1 500 000 to SMME's. However, its "*Banking for U*" product offering focusing on the retail market constituted the major part of the business of Ubank.

Ubank was placed under curatorship on 16 May 2022.

Following the curatorship of Ubank in May 2022, African Bank was the successful bidder to acquire the majority of Ubank's disclosed assets and liabilities and take on its employees on a going concern basis for a total cash consideration of ZAR80 million. The effective date of this acquisition was 1 November 2022.

African Bank has been working to diversify funding sources and has added significant retail deposits over the last few years and the addition of Ubank's deposit base complements this effort. The Acquisition of certain of Ubank Assets and Liabilities and liabilities allows African Bank to add scale and diversity to its operations, while also allowing African Bank to leverage off Ubank's strategic partnerships. The acquisition provides African Bank with access to new customers and opens up the possibility of exploring new markets within the mining sector.

This acquisition also provides customers of Ubank immediate access to African Bank's nationwide distribution footprint.

African Bank did not acquire the Ubank legal entity, and any residual assets and liabilities have remained with its legal entity.

Grindrod Bank

With effect on 1 November 2022, African Bank acquired 100% of the ordinary shares in GFH and 100% of the preference shares in Grindrod Bank from Grindrod Limited for a cash consideration of ZAR1.5 billion. GFH, which is an investment holding company, owns all of the ordinary shares in Grindrod Bank as well as in the entire issued ordinary share capital of GFH Investments Proprietary Limited which is a dormant entity. Through this acquisition, Grindrod Bank became a wholly owned indirect subsidiary of African Bank and ABHL.

Grindrod Bank is a business bank, established in the mid-1990s, which specialises in managing cash deposits, corporate and investment banking and is a niche financier in the South African property market known for its specialised expertise in commercial and industrial property finance. Grindrod Bank provides bespoke financial services to private, corporate and institutional clients.

Grindrod Bank's business offering can be categorised as follows;

- Its *Investments and Savings* division manages customers' deposit investments through its treasury department, offering call deposits, fixed deposits and prime-linked notice deposits;
- In its *Specialised Property Finance* division, Grindrod focuses on traditional commercial and industrial property funding which range from traditional senior finance to higher leverage mezzanine debt;
- Its *Corporate, SME and Investment Banking* division provides tailor-made facilities (of between R10 million and R50 million) to corporate and SME clients in the form of debtor finance, overdraft facilities and term debt; and

Grindrod Bank also offers its customers access to platform banking products and services through its *Platform Banking* offering. These products and services are offered in partnership with non-banking businesses and include access to card and non-card payment services, access to deposit, transactional and lending product platforms, bill payments and value-added services access, regulatory reporting, settlement and reconciliation services.

Grindrod Bank is expected to provide an entry for the Issuer into the business banking market which will be grown off African Bank's larger balance sheet and strong capital levels. In addition, African Bank obtains access to a diversified source of funding through Grindrod Banks' Investment and Savings offering.

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 Issuer.

There is a high dependency on IT infrastructure to enable African Bank's offering of digital solutions and its Omni-channel capability. As a result of the Covid-19 Pandemic, the Issuer's IT development has enabled remote working on a large scale.

There is a clear link between the Issuer's strategic objectives and its IT focus and aligned to the Issuer's strategy to:

- "*strengthen the core*" is to enhance its technology platform and cyber security practices further, while improving the speed of delivery; and
- "*expand the core*" through building a partnering capability with financial technology companies (fintechs), telecommunication companies and value-added services providers that will expand product range and customer reach.

Human Capital (*people – the African Bankers*)

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

- create a diverse and transformed workplace;
- provide equal opportunities to all its employees, while giving special consideration to those from designated groups;
- remove all barriers to affirmative action and transformation;
- ensure progress on the Group's employment equity plans; and
- achieve the Group's longer-term transformation objectives,

while building capabilities (including leadership and data science capabilities) and engaging in continuous learning in an environment in which creativity and innovation are encouraged.

Business Insurance

All insurance coverage for the Issuer has been placed at the ABHL level. ABHL 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 Issuer 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 Issuer 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 Issuer as well as the Issuer's legal liability to third parties arising from the fraud of an employee.

Grindrod Bank has its own directors' and officers' liability insurance as well as standard fidelity insurance cover providing protection against business losses caused due to employee dishonesty, theft or fraud within the limits of the relevant policy.

COMPETITIVE LANDSCAPE

With regard to its lending business, African Bank competes with both large lenders and smaller short-term lenders. Banks that provide credit to their customers comprise an established group of competitors to African Bank. 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.

While registered banks are traditional competitors in the transactional banking and retail savings markets, Artificial Intelligence (AI), automation, blockchain, cloud and the internet of things are changing traditional banking operating models, giving rise to three types of digital competition, namely financial technology companies (fintechs), digital-only-banks and technology giants with large asset pools and the ability to apply big data analytics (bigtechs). These entrants have cheaper start-up costs and place pressure on traditional pricing models.

Non-traditional financial service providers tend to focus on the market of African Bank – the largely underserved to promote financial inclusion (which would include SMME customers to be targeted by African Bank as part of its new strategy established in FY21). Offerings include digitising cash, providing basic savings, accepting deposits, offering payment services and issuing ATM cards.

Historically tier 2 banks such as Grindrod Bank have traditionally competed against each other within the same target market. New non-bank entrants offering unsecured SME funding are seen as a disruptor within this market segment.

CREDIT RATINGS

As at the Information Date, the 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, in accordance with the Applicable Procedures.

RISK GOVERNANCE FRAMEWORK

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

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

The governance framework applies to African Bank and AIG. In developing the governance framework, the ABHL 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 African Bank's Board and the AIG Board have adopted the governance framework and procedures approved by the ABHL Board.

It is anticipated that Grindrod Bank and GFH will continue to function as separate legal entities with their own board, board committees and board policies for the short-to-medium term until the business of Grindrod Bank has been fully integrated with the business of African Bank and transferred to African Bank.

Annual Governance Disclosures

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

- the governance framework applicable to ABHL, African Bank and AIG;
- the Boards' independence, its diversity, its code of conduct and its evaluation and other process;
- the board committees;
- the executive committee; and
- the risk management framework, process and objectives.

Governance Policies

The following policies of the ABHL Group (applicable in respect of the ABHL Group, including African Bank) are available on the following website (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Policies and legal compliances***" path in such website at the following URL https://www.africanbank.co.za/en/home/policies-and-legal-compliances/).

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

Directors and Company Secretary and Directors Declarations

The most current details, from time to time, of the board of directors of the Issuer (including the directors' brief curriculum vitae, capacity, list of directorships of each director as well as the directors' disclosures required of the directors of the Issuer in terms of the JSE Debt Listings Requirements,) are contained in the Directors Information Sheets incorporated by reference into the Relevant Programme Memorandum which are available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Debt investor information***" path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-debt-investor-info/).

The company secretary of the Issuer (who, as at the Information Date is in an acting capacity) is Tshepiso Sethole. On 4 May 2023, African Bank announced on SENS that Ms Trisha Singh has been appointed as the Group Company Secretary with effect from 3 August 2023. The Group Company Secretary's business address is at 59, 16th Road, Midrand, 1685, South Africa.

Debt Officer

As at the Information Date, the debt officer of the Issuer is Chrisanthi Michaelides.

Chrisanthi Michaelides is also a director of the Issuer and the disclosures required under the JSE Debt Listings Requirements regarding the debt officer are the same as those contained in the Directors Information Sheet pertaining to her. The Directors Information Sheets are incorporated by reference into the Relevant Programme Memorandum which are available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "Corporate Information***" "***Debt investor information***" path in such website at the following URL https://www.africanbank.co.za/en/home/corporate-info-debt-investor-info/).

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 ABHL. Details regarding ABHL's implementation of the King IV principles are contained in the Annual Governance Disclosures.

RISK MANAGEMENT

The Issuer'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 Issuer has identified 12 principal risks and their underlying sub-risk types through the application of its enterprise risk management framework. Details of those 12 principal risks and ABHL's analysis of whether the Group's exposure to such risk is increasing or diminishing are contained in the Annual Governance Disclosures.

In addition, details are set out below to illustrate how the Group responds to the following risks:

- Credit risk
- Strategic risk
- Cyber-crime risk

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

CREDIT RISK MANAGEMENT – African Bank

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

Credit Risk governance and management

The prime objective and mandate of the Model Risk Committee ("MRC") is to approve all credit related models including impairments, credit scoring, profitability and affordability, as well as all collection scorecards, the advanced IRB model for Economic Capital, the ICAAP models and any other models designated as material models which are utilised in African Bank. 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 and reports to the RCMC on a quarterly basis.

The duties and responsibilities of the MRC include:

- the establishment of an inventory of the material models in use in the African Bank and the management thereof;
- the validation of models as it deems necessary;
- the review of the models at least annually;
- ensuring that an appropriate governance process is in place to ensure that the necessary documentation and information is in place to facilitate the effective validation of the models;
- being responsible for action to mitigate risk identified by any individual model; and
- specifically reporting to the ALCO any matters or issues identified in the validation process of the ICAAP or models related to the management of ALCO risks.

The exposure of African Bank to credit risk can be divided into two categories:

- financial assets other than advances; and
- advances the nature and composition of which is described below:

Advances Credit Risk

For information on the advances credit risks of African Bank at Information Date, see "*Risk Factors – Credit Risk"*. For information on the management of the exposure and concentration risks in respect of corporates pursuant to special projects in respect of strategic relationships see "*Description of the Issuer – Risk Management –Strategic Risk Management – Management of Strategic Risk*".

A significant part of African Bank's 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 African Bank. African Bank's business is conducted in the South Africa. The demographic credit characteristics of the customer base exposes African Bank to systemic credit risk.

African Bank mitigates this risk by applying African Bank's application scorecard, a set of business rules, affordability assessments and verification of items on a sample basis as a fraud mitigation tool. African Bank's credit risk assessment process adheres to the requirements set out by the NCA and the FSCA. Information as to loan size and term can be obtained from most recent Issuer financial statements and ABHL Integrated Report.

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 African Bank's maximum exposure to credit risk for advances at

that point in time. African 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*").

Credit risk assessment

The assessment of the customer affordability is done in two parts. Firstly, African Bank ensures compliance with the NCA affordability guidelines, which African Bank calculates as being an amount equal to the net income less financial obligations less monthly living expenses. Secondly African 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.

African 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

African 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 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.

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. African Bank uses various debit strike platforms, and each provides African Bank with different striking capabilities and options. African Bank utilises several approaches to collect instalments from customers. These include the Debi-check system, 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.

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

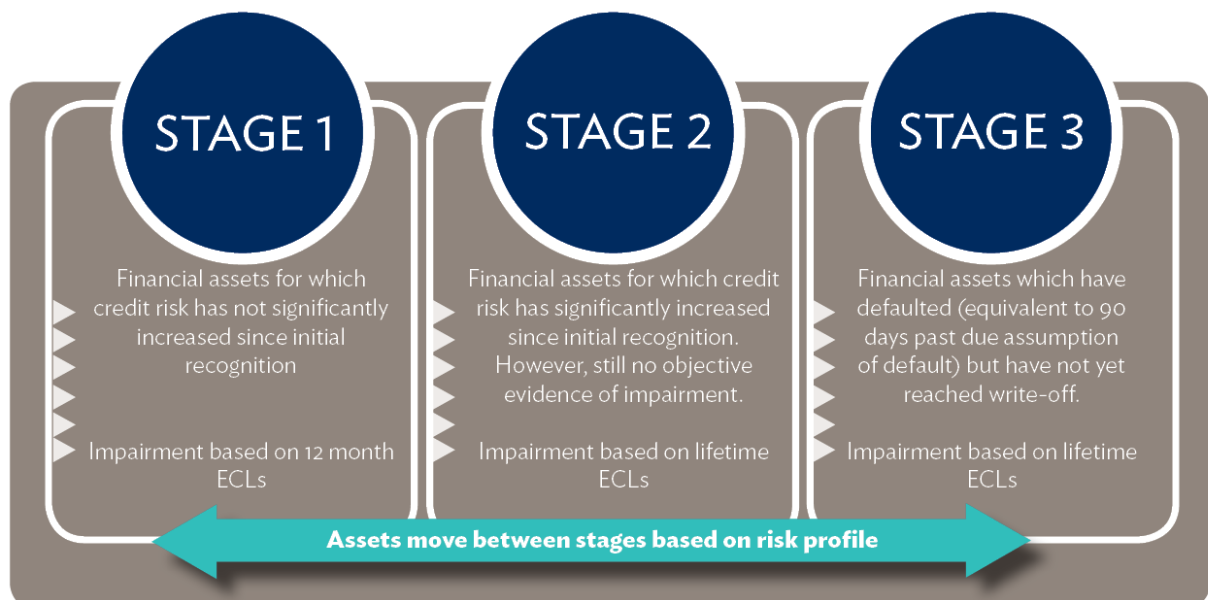
Informal indulgences are where customers request a lower debit order amount referred to as a promise to pay. Formal restructures relate to debt counselling, administration orders and court orders. From an impairment perspective, these advances are still aged through the contractual CD buckets based on their original contractual instalments and obligations.

The transfer policy prescribes when an account will be moved into the Legal Collections division of African 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.

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 **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 ECLs 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 ECLs 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	ARREARS BUCKETS	IFRS 9 STAGE
CD 0 - 1	Performing advances that are not past due and are within the contractual term	<= 30 days	Stage 1
CD 0 - 1 SICR (significant increases in credit risk)	Performing advances that are not past due and are within the contractual term, but for which SICR has been identified	<= 30 days	Stage 2 (SICR)
CD 2 - 3	Advances where between two and three instalments have been missed, or where instalments have been received after their contractual date of repayment	31 - 90 days	Stage 2 (arrears)
>=CD 4	Advances where more than three instalments have been missed but that have not met write-off requirements	>=91 days	Stage 3
>CD 4 recency 12	More than three instalments have been missed and no payments have been received over the past twelve consecutive months		Written off

The advances within African 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, African 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*”.

African Bank applies a write off policy at an individual exposure level, where advances are written off in full if no payment had been received in the preceding twelve months. This period was increased from five

months to eight months after the adoption of IFRS9, with effect from FY19 and was increased to twelve months in FY22 due to the strong collection experience on the written-off book and now aligns African Bank's policy with industry practice.

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, African 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.

African 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.

CREDIT RISK MANAGEMENT. **- GRINDROD BANK**

The section of this Information Memorandum headed "*Description of the ABHL Group*"- "*Board and Corporate Governance Structures in the Grindrod Group"* sets out an organogram depicting the composition of Grindrod Bank board and its subcommittees.

The committees listed below, or highlighted in that organogram, are responsible for the following in relation to credit risk management within Grindrod Bank:

- the board: The ultimate responsibility for credit risk management of Grindrod Bank lies with its board of directors ("**Grindrod Board**") and its senior management. Where appropriate, the Grindrod Board is required to approve risk appetites and tolerances to aid in credit risk management.
- Risk and Capital Management Committee: This committee is mandated to monitor all risks within Grindrod Bank. This includes assisting the Grindrod Board in managing concentration risk and monitoring large exposures and non-performing loans. A formal committee meeting is held quarterly.
- Asset and Liability Management Committee: This committee is responsible for the monitoring, managing, measuring and reporting of Grindrod Bank's asset and liability portfolio with regards to the current and forecasted positions and the performance of the Asset and Liability Management (ALM) strategies. A formal committee meeting is held bi-monthly and reports into the Risk and Capital Management Committee.
- Audit and Compliance Committee: This committee monitors significant audit findings in relation to credit risk and ensures findings are adequately resolved.
- Combined Assurance Forum: This forum monitors the level of assurance provided on credit risk.
- Credit and Large Exposure Committee ("**CLEC"**): The CLEC is mandated by the Grindrod Board to manage credit risk and approve large exposures between 10% and 25% of Grindrod Bank's qualifying Tier 1 Capital. A formal committee meeting is held quarterly. The Committee is further responsible for the credit and investment risk management policies and procedures of Grindrod Bank. The Committee recommends policies to the Grindrod Board, sets guidelines and reviews compliance with the approved policies of Grindrod Bank.
- Members of CLEC include the following key individuals:

- 5 independent non-executive Directors (one of whom is the Chairman);
- the Chief Executive Officer of Grindrod Bank;
- the Group Executive - Coverage and Business Development - Grindrod Bank;
- the Chief Financial Officer of Grindrod Bank;
- the Chief Risk Officer of Grindrod Bank; and
- the Head of Credit of Grindrod Bank.

- Executive Credit Management Committee ("**ECMC"**) and Business Banking Credit Committee (**BBCC**): The ECMC and BBCC manage Grindrod Bank's credit risk at a management level.
- New Product Approval Committee: This committee assesses credit risk in relation to new products and new platform banking partners.
- Managed Accounts Meeting: These meetings create a forum to discuss matters relating to non-performing loans and how the non-performing loan position will be remediated.

Credit Risk Assessment

The credit origination process commences within the Lending Division of Grindrod Bank. The Lending Division generates a credit motivation based on their assessment of the client. The Credit Division pf Grindrod Bank thereafter assesses the adequacy and performs a further investigation, considering broader implications of credit risk in line with regulatory requirements.

As part of the credit risk assessment, a credit risk score is assigned to a client based on the internal Credit Risk Scorecard of Grindrod Bank. The Credit Risk Scorecard takes into consideration qualitative and quantitative factors that assess the borrower's ability to service a loan. The Credit Risk Scorecard also assesses the quality and value of assets provided as security.

Grindrod Bank has an established Large Exposure Framework in place which is used as guidance to ensure compliance with regulatory requirements. A schedule is attached to all credit proposals to highlight the grouping of loans and demonstrate compliance with large exposure limits. Grouping is recorded on the Credit System of Grindrod Bank and is included within the system-generated reports to assist with ongoing monitoring.

Credit Monitoring

In order to ensure ongoing credit risk management, Grindrod Bank performs various processes within the first and second lines of defence.

Credit risk is managed and monitored through the first line of defence utilising the following processes:

- Loans are reviewed annually to ensure the Credit Risk associated with a client is appropriately reflected. Any client indicating an increase in credit risk is reassessed.
- The Credit Operations team ensures that information is correctly recorded on the credit system, of Grindrod Bank according to the credit proposal. Further, the Credit Operations team procures that the property values held as security are assessed and updated on an ongoing basis at appropriate intervals. Shares which have been ceded to Grindrod Bank are monitored on a weekly basis.
- The Credit Operations team also monitors the value of security in relation to the client's exposures to ensure that the contractual security covenant requirements are met.
- The Credit Operations team monitors accounts/ facilities in arrears and are escalated accordingly. Accounts which are in an arrears position are reported to the ECMC and BBCC weekly.

- The Credit Operations team or Credit Recoveries and Collections team will assess clients to determine whether the relevant exposure of Grindrod Bank to such clients are non-performing and will perform enhanced monitoring and increase controls surrounding these loans. (See the section below headed "*Non-Performing Loans Management*").
- The Credit Operations team is responsible for the accurate capturing of loan information and for the ongoing monitoring of security and non-performing loans which are not in a recovery state. The integrity of this data is important to enable management to meaningfully assess the credit risk within Grindrod Bank.
- The Regulatory team within the Finance Division of Grindrod Bank prepares and submit BA returns (as required in terms of the Regulations Relating to Banks) related to Credit Risk. This is completed based on information from system-generated reports. If the regulation is unclear, the Finance Division would seek guidance from the Prudential Authority to ensure the correct application of the regulations.

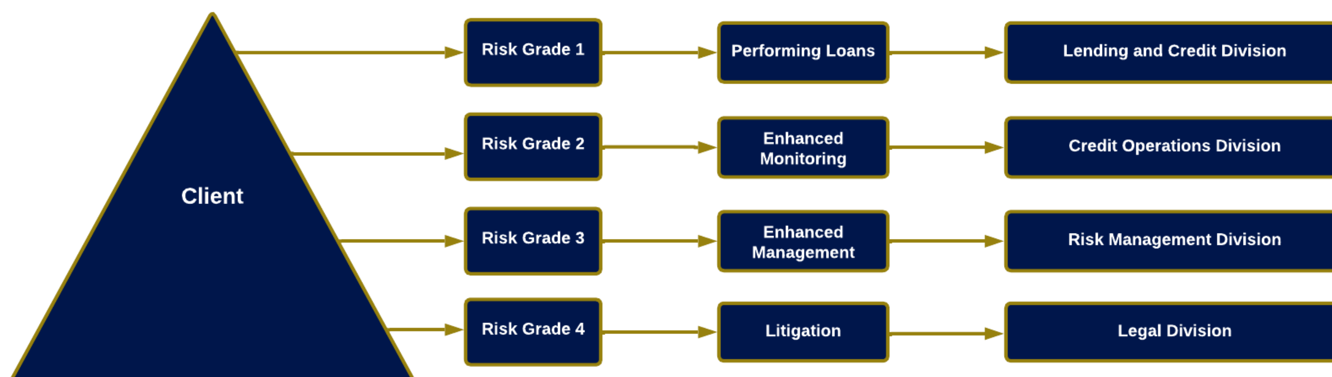
Credit risk is managed and monitored through the second line of defence utilising the following processes:

- The Risk Management Division provides assurance on concentration risk. Concentration risk is monitored monthly and is reported to CLEC quarterly. This enables Grindrod to ensure that significant levels of concentration risk remain within approved levels.
- Trends within Key Risk Metrics are monitored on an ongoing basis to detect any changes in the Credit risk profile of Grindrod Bank.
- The Risk Management Division ensures that other Divisions within Grindrod Bank update and maintain their divisional risk registers to ensure it is an accurate representation of Grindrod Bank's credit risk.
- The Risk Management Division highlights control gaps and ensures remedial plans are implemented to resolve these issues.
- The Risk Management Division calculates the IFRS 9 provisions.
- The Risk Management Division performs stress testing on ECLs to examine the sensitivity of model assumptions and changes in economic conditions.
- Non-performing loans are reported to the CLEC to aid in monitoring the level of Credit risk and inform decision-making.
- The Risk Management Division performs extensive reviews on reports utilised for Credit risk reporting to ensure the accuracy of reports.
- Reviews of new or amended regulations are performed by the Risk Management Division and Compliance Division to ensure that Grindrod Bank is appropriately managing its Credit Risk.
- Measurement of large exposures as a percentage of Tier 1 Capital is performed monthly, to ensure that prudential limits are not in breach.
- The Risk Management Division performs risk assessments for new products to ensure that Credit Risk is considered. Grindrod Bank must ensure that appropriate actions are taken to close any gaps identified.

Non-Performing Loans Management

To ensure that Grindrod Bank appropriately manages loans which have shown signs of deterioration, Grindrod Bank has adopted a four "Risk Grade" model to manage the credit risk within the loan book. This model aims to segment the loan book into different risk grades, based on the credit risk associated with the client. This then depicts the level of management and monitoring required over the loan. Clients that fail to

meet repayment obligations or show signs of distress will result in an increase in the "Risk Grade" associated with the client. The risk grades are as follows:



To determine the level of management involved, Grindrod Bank examines the condition of a client which includes the following:

- Repayments of contractual agreements.
- Changes in the security which is held as collateral.
- The financial position of the client.
- Change in the key individuals linked to the client.
- Litigation against the client.

Performing Loans include loans that have normalised. Furthermore, decisions related to the transfer of non-performing loans between risk grades are discussed and approved at the Managed Accounts Meeting or ECMC.

Collections and Recovery

When a loan meets the criteria and required indicators for the risk grade 3 category, the loan shall move to the Credit Recoveries and Collections team within the Risk Management Division for enhanced management. All loans within the risk grade 4 category are managed directly by Grindrod Bank's Legal Division, with the assistance of the Risk Management Division, in order to obtain the best recovery available to Grindrod Bank.

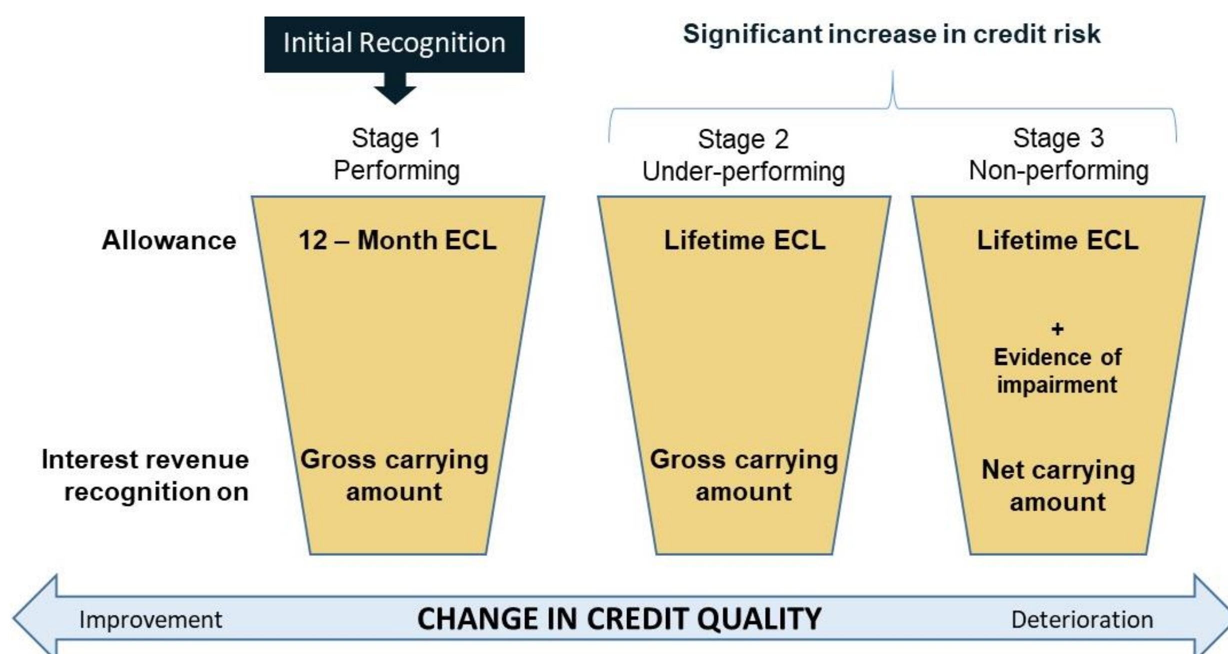
Once the loan falls within the risk grade 3 and 4 category, the Risk Management Division conducts a recovery assessment on the loan, which will inform an appropriate recovery solution to pursue, which include but are not limited to a restructure arrangement, an exit strategy *via* a settlement arrangement, acting on the security held for the benefit of Grindrod Bank, providing post-commencement financing or proceeding to litigation.

The recovery assessment includes an assessment relating to the security held in respect of the exposure, which is further stressed based on present market conditions, any fees and costs that have not been recovered and the client's profitability and business continuity.

Impairments – Business Banking

To determine Grindrod Bank's impairments within its asset book, Grindrod Bank first distinguishes between loans which are valued at amortising cost and loans which are valued at fair value. Where loans are valued at amortising cost, Grindrod Bank assesses the ECL relative to the risk profile of the asset. To accomplish this, Grindrod Bank separates its amortising cost assets into the loan book and treasury assets due to the nature of these assets. Grindrod Bank then applies differing methodologies to determine the ECL for these asset types.

IFRS 9 uses a three-stage model to calculate the ECL as set out below. Each stage has a varying level of credit risk and thus, a different means of calculating the provision.



In order for Grindrod Bank to determine whether a 12-month ECL or a Lifetime ECL should be applied to a loan, it first examines the loans within the loan book to identify if a Significant Increase in Credit Risk (SICR) has been triggered since the initiation of a loan. These include factors such as the arrears position of a client, changes to a client's credit risk score, breaches in contractual agreements, deterioration in the security held as collateral, issues with locating the client or regulatory classifications of clients.

In order to determine evidence of impairment, Grindrod Bank considers, legal actions taken against the client, distressed restructures and client defaults. The IFRS 9 standard requires an entity to apply a definition of default that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators where appropriate. There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. In order to achieve this Grindrod Bank utilises the following indicators for default:

- Facilities with an amount outstanding for 90 days will be termed in default.
- Conditions not being met (such as covenants or minimum NAV). this is subject to an internal assessment of the breach.
- Acts of Insolvency (Liquidation / Business Rescue proceedings).

Should clients trigger SICR but not show any evidence of impairment, the loan will be transferred to stage 2, which calculates a Lifetime ECL based on the IFRS 9 ECL general provisions model. This is assessed bi-annually.

Should clients trigger any of the objective evidence of impairment, the loan is transferred to stage 3, which calculates the Lifetime ECL based on the client's specific circumstances. These assessments are performed on an ongoing basis.

Grindrod Bank applies a general provision model on loans which are not in stage 3. This is based on the probability of an account defaulting and their unsecured exposure at default. The probability of default incorporates both the risk profile of the product and the risk profile of the client. This enables Grindrod Bank to perform calculations on an account level, as opposed to performing calculations on a portfolio basis.

The Risk Management Division examines the repayment profile of an account and the potential exposure of the client during a 12-month period and during the lifetime of the loan. This is used to adjust the value of the security which is held as collateral. This enables Grindrod Bank to determine the ultimate loss for a given account.

The Risk Management Division incorporates forward-looking information within the general provision model by utilising forward-looking macroeconomic variables relative to the historic market trend. Adjustments are then applied based on the relationship between the forwarding-looking macroeconomic indicators and the probability of default. A further adjustment is applied to the security based on the relationship between the macroeconomic indicators and the types of security held as collateral. This will adjust the expected losses for assets within the loan book.

In order to determine the ECL on treasury assets, Grindrod Bank first obtains the credit ratings provided by External Rating Agencies (Moody's and S&P) on the various treasury asset products. This is utilised to determine the credit risk associated with an asset.

These rating agencies publish default and recovery statistics which are used to determine the probability of default and losses in the event of default of the treasury asset product. These rates are then adjusted based on the maturity and risk profiles of the treasury assets, to determine a base probability of default. Forward-looking information is then incorporated within the model, using the economic outlook of an asset to adjust this probability of default.

Once the ECL has been calculated, Grindrod Bank performs stress tests on the model to highlight the impact of changes in model assumptions. This includes the following:

- Sensitivity assessments are performed on the factors within the loan book model, which are used to determine the ECL.
- Scenario Analysis are performed on the impact of loans being transferred from stage 1 to stage 2.
- Sensitivity assessments are performed on the credit rating of assets within the treasury asset ECL to determine the impact on ECL.

Write-offs

If the loan has proven to be irrecoverable, a write-off of the loan exposure is considered on a case-by-case basis and approved by the relevant Committees.

Grindrod Bank considers the factors below when determining the value of a write-off:

- the value of the security;
- the costs to recovery;
- the guarantor's NAV; and
- the likelihood of recovery.

STRATEGIC RISK MANAGEMENT

For information on the strategic risks and business risks of the Issuer at Information Date, see "*Risk Factors* - *Risks Related to the Business of the Issuer – Strategic Risk*".

Management of Strategic Risk

Strategic risk within the Issuer is primarily the responsibility of the Boards, the boards in the Grindrod Group and the relevant Group Executive Committee to manage.

Strategic risk is not a specified risk for Basel III Pillar 1 regulatory capital, therefore no calculation of risk or its corresponding capital requirement is stipulated by African 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, strategic risk does 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 Issuer to consider. Strategic risk is therefore monitored and managed by the Issuer, and an assessment is made annually at the ABHL Board and the RCMC level as to the impact of these risk types on future earnings and the sustainability of the Issuer. Where risk is identified, an appropriate response from a governance, management and economic capital methodology is required.

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

- ABHL Board and the Group Executive Committee strategic planning sessions, culminating in the ABHL Board strategy session in April of each year;
- The rolling three-year financial forecasting process, culminating in ABHL 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 ABHL 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 Issuer 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 Issuer 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 ABHL Board and the Group Executive Committee to determine effective strategies and assess the profitability of existing business lines.

As part of the Excelerate25 strategy to "*expand the core*" (further details of which are set out above in the section headed "*Description of the Issuer – Strategy"*) the ABHL Group, as special projects, will seek strategic relationships with corporate partners and, as an aspect of these special projects, African Bank may grant corporate financing where this is aligned to a broader strategic relationship with the relevant corporate. The quantum of such corporate financing may in some cases result in concentration risks (See "*Risk Factors – Credit Risk*").

As part of the management of risks associated with such special projects, the ABHL Board established a Special Projects and Large Exposures Committee ("**SPLEC**") on 30 December 2021 as a formal Board Committee of ABHL. The objectives of the SPLEC are to be accountable for the following:

- <u>Special Projects:</u>
  - Decision-making, including approval, in relation to special projects identified by the Boards or as recommended by the Group Chief Executive Officer from time to time and sub-delegated to the SPLEC;
  - Decision-making, including approval, of Special Projects in line with the Group's strategy as identified by the Board or as recommended by the Group Chief Executive Officer from time to time and sub-delegated to the SPLEC.
- <u>Large Exposures:</u>
  - approval of exposures less or equal to 10% of the capital and reserves of African Bank or ABHL, as may be applicable (as prescribed under the Banks Act);

- consider and approve exposures greater than 10% but less than or equal to 25% of such capital and reserves. All decisions taken shall be tabled at the relevant Board meeting immediately following the meeting of the SPLEC, for such Board's review and ratification;
- considerations of exposures greater than 25% of such capital and reserves and making appropriate recommendations to the relevant Board for consideration, prior to obtaining the requisite regulatory approval.

Members of SPLEC are:

- the members of the Directors' Affairs and Governance Committee;
- the Chairperson of ALCO;
- The Chief Executive Officer of the ABHL Group;
- the Chief Financial Officer of the ABHL Group;
- the Group Risk Officer, or proxy/nominee; and
- the Head of Credit of the ABHL Group, or proxy/nominee.

CYBER-CRIME AND INFORMATION TECHNOLOGY RISK MANAGEMENT

For information on the Cyber-crime risk and the information and technology risks of the Issuer at Information Date, see "*Risk Factors – Information Technology, Information Security, and Cyber-Crime 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 Issuer making several key and innovative cyber-security investments in technology and employees in line with its security strategy. The Issuer's mitigation response is:

- the continual evaluation and management of this risk as part of the Issuer's overall risk framework
- implementing appropriate preventive, detective and corrective controls as part of the Issuer'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 Issuer's ability and proficiency in managing and monitoring fraud and cyber-risks.

Management of information technology risk

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

Information and technology risk management is managed via the existing governance structures. First line of defence reporting occurs at the Technology Management committee (Exco committee) which then reports into the TechInfo Committee as a sub-committee of the RCMC. The second line of defence reporting is presented to the Risk Management committee (Exco) which reports to the RCMC. Further, Information and technology is subject to internal and external audit review as part of the third line of defence.

Within these lines of defence are the following management structures:

- The executive member of staff responsible for Information Technology (IT) is a member of the Group executive committee (Group Exco).
- The IT department manages information and technology risk through the IT Charter as well as the information security strategy document.
- The IT department within the ABHL Group assumes responsibility for all components of the ABHL Group's technology processing, development and systems support. The functions that operate all of the ABHL Group's IT systems, databases, technology infrastructure, software development and IT projects/programme management are centrally managed to provide economies of scale and facilitate a cohesive group-wide service-oriented architecture and technology strategy.
- The Technology Management committee, a subcommittee of the Group Exco, serves as a steering committee for IT related matters at an ABHL Group level.

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 Issuer, taking into account innovation and progressive development, and also ensuring the ethical and responsible use of technology and information;
- Setting the direction of the role of innovation within the Issuer taking into consideration the contribution which technology and information make in the achievement of these objectives;
- Approving policies that articulate and give effect to its set direction on the employment of technology and information in a way that supports the Issuer 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) assure the integrity of critical technology assets;
- Reviewing periodic independent assurance on the effectiveness of the Issuer'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 Issuer through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure.

Enhancement of the Issuer's IT systems and cyber-security is an ongoing process, and the Issuer continues on its journey to remove all legacy IT system components where these impose current or future risks.

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.