AFRICAN BANK LIMITED
(Registration number 2014/176899/06)
(incorporated with limited liability in the Republic of South Africa)
(the "**Issuer**" or the "**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 a supplement thereto dated 5 November 2018 (the "**Previous Programme Memorandum**"). The Previous Programme Memorandum continues to apply to all Series of Notes issued by the Issuer prior to 13 March 2019.

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

This document headed the "*Business and Risk Information Memorandum*" (the "**Information Memorandum**") contains the following information, as at 14 March 2022 (the "**Information Date**"), which is incorporated by reference into the Previous Programme Memorandum and the Updated Programme Memorandum:

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

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

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

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

Information Memorandum date: 14 March 2022

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GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Bilateral Corporate Deposits**" means collectively all unsubordinated corporate deposits (i.e. deposits that are not Retail Deposits) and other unsubordinated debt instruments not issued under the Programme or the Issuer's EMTN Programme, comprising predominantly:

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

"**Boards**" means the ABH Board and the Bank's Board;

"**Capital Regulations**" means any legislation, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in South Africa in relation to banks registered under the Banks Act and their controlling companies;

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

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

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

“**CHF**” refers to the lawful currency of Switzerland;

“**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;

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

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

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

“**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;

“**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;

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

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

“**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 ABH through Absa Trading and Investment Solutions (Proprietary) Limited), Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited;

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

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

"**PNs**" means promissory notes;

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

"**Prudential Authority**" means the Prudential Authority established under section 32 of the FSR Act;

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

"**RDS**" means Residual Debt Services Limited (under Curatorship) (registration number 1975/002526/06), (previously called "*African Bank Limited (under Curatorship)*" prior to 4 April 2016), a public company incorporated in accordance with the laws of South Africa 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 and Government Notice R724 in Government Gazette 44003 of 18 December 2020), as such Regulations may be amended, supplemented or replaced from time to time and any other prevailing capital adequacy regulations promulgated under the Banks Act and applicable to the Issuer, as such regulations may be amended, supplemented or replaced from time to time;

"**Relevant Programme Memorandum**" means, in respect of a Series of Notes:

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

- initially issued on or after 19 March 2019, is a reference to the Updated Programme Memorandum, being an updated and restated programme memorandum registered with the JSE on 13 March 2019, as amended and supplemented from time to time;

"**Relevant Regulator**" means the Prudential Authority in terms of the Banks Act and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer;

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

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

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

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

"**SARB**" means the South African Reserve Bank established in terms of the SARB Act;

"**SARB Act**" means the Reserve Bank Act 90 of 1989 (as amended);

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

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

"**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;

"**USD**" refers to the lawful currency of the United States; 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 in particular should consider all the risks inherent in making such an investment, including the risk factors set out below, before making a decision to invest.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it, or which it may not currently be able to anticipate. Accordingly, the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

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

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

References below to the "Terms and Conditions", in relation to the Notes, shall mean the "Terms and Conditions of the Notes" set out in the Relevant Programme Memorandum and references to a numbered "Condition" shall be to the Terms and Condition under the relevant Terms and Conditions.

RISKS RELATED TO THE BUSINESS OF THE ISSUER

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

COVID-19

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

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

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

In response to the Covid-19 pandemic, the Bank took pro-active steps, including the provision of relief measures in the form of payment holidays to customers, financial education and financial management advice to customers and the public at large, competitive short-term loans, health and wellbeing support to the Banks employees and business partners; and humanitarian aid in the communities in which the Banks operate in partnership with others.

The continuing impact of the Covid-19 pandemic and the occurrence of new Covid variants could further impact the level of disbursements made by the Issuer and influence the recognition of credit losses in the Issuer's advances portfolios and result in increases in the Issuer's credit impairment charges, particularly as businesses

are closed and as more customers lose their employment. While the Issuer has, through the course of the Covid-19 pandemic, established effective remote working conditions for its corporate office personnel, the Issuer's business operations may also be disrupted if a significant portion of its public-facing workforce is unable to work effectively, including because of illness, quarantine, government actions, working remotely or other restrictions in connection with the Covid-19 pandemic. Remote working practices could increase exposure to information security risks and lead to data breaches.

While the outlook remains uncertain, ultimately, the Covid-19 virus's impact on global economic growth will be driven by the speed with which it is contained, the level of vaccinations, the limited further impact of successive waves of the virus and the permanent lifting of national lockdown measures.

NO RECOURSE TO GROUP ASSETS

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

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

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

STRATEGIC RISK

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

Strategic risk refers to the risk inherent in the chosen strategies of the ABH 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, 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.

An updated comprehensive medium- to long-term strategy for the Issuer has been developed by the management of the Issuer and its Board 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.

There can be little assurance, other than through the actual delivery thereof, that the Issuer will be able successfully to implement all or part of its strategy or implement it when expected or targeted. The Issuer may also experience unexpected costs or cost increases and other execution problems in implementing its strategy. Further, there can be no assurance that the Issuer will be able to achieve its capital, financial or operational targets or otherwise realise all or part of the benefits that it expects from its current plans or other future initiatives. A failure or delay in implementing the Issuer's strategy may adversely affect the Issuer's business, financial condition, results of operations and prospects.

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

CYBER-CRIME RISK

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

As is the case for all businesses, the Issuer faces a constant challenge in preserving the confidentiality, integrity and availability of its information assets against a broad range of external and internal threats.

The Issuer's operations are largely dependent on its own information technology systems and those of its third-party service providers. The Issuer could be negatively impacted by cyber-attacks on any of these systems. As the Issuer has moved into transactional and digital banking, the risk of cyber-crime has increased, especially as infiltrating technology is becoming increasingly sophisticated, and there can be no assurance that the Issuer will be able to prevent all threats.

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

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

SHAREHOLDER STRUCTURE

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

The Issuer is a direct, wholly-owned subsidiary of ABH, and all of the ordinary shares in ABH are owned by the Consortium as at the Information Date, 25% being held by the Participating Banks, 25% by the GEPF and 50 % by the SARB. None of the members of the Consortium are obligated to hold their ordinary shares for any prescribed time period and, as a result, each of them may sell its ordinary shares at any time (but such disposal is subject to the prior consent or deemed consent of the SARB, for so long as the SARB is also a shareholder of ABH).

In February 2020, the SARB published a request for proposal to appoint a transaction advisor relating to the future sale of its shareholding in ABH, which it acquired as a result of the restructuring of certain of the assets and business of RDS into the Issuer. In this regard, the SARB had publicly stated that it was never its intention to hold this equity stake indefinitely, particularly because its shareholding creates a potential conflict of interest between its role as a regulator of the Issuer and as a major shareholder of ABH. 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. The Issuer regards this development as an opportunity to move the ABH Group closer to its vision of becoming a listable entity in the foreseeable future.

Notwithstanding this, if SARB and any other members of the Consortium were to sell or transfer their shares, there can be no guarantee that the new controlling shareholders would be amenable to pursuing the vision of the

ABH Group to become a listable entity or be willing or able to capitalise the Issuer in the future to the same extent as the Consortium agreed to do historically. There is further no guarantee that any new controlling shareholders, or the members of the Consortium, would be willing to continue to support the Issuer's current business strategy.

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

HUMAN CAPITAL RISK

The Issuer is dependent on its directors, senior management team and key personnel and its ability to recruit and retain them.

Human Capital 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.

In addition, the Issuer will need to identify and employ new employees and key personnel to develop and implement new product lines in pursuance of the Issuer' strategy set at the end of FY21 to "*expand the core*" of the Issuer's business, one of which is to develop a digital offering for SMMEs beyond unsecured lending. (see "*Description of the Issuer – Strategy"*.) Should the Issuer be unable to attract or retain the necessary skilled employees and key personnel, this may have a material adverse effect on the ability of the Issuer to deliver on aspects of its FY25 strategy. Another of the impacts of the FY25 strategy will be the appointment of new group executives, as part of the Issuer's transformation objectives.

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

For further information in this regard see "*Description of the Issuer – Risk Management – Human Capital Risk Management".*

CREDIT RISK

Credit risk for the Issuer arises from three primary sources:

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

The first category is fundamental to a significant part of the Issuer's business at the Information Date, which is to provide unsecured personal loans to its customers (see "*The Issuer is exposed to credit risk by lending money to customers*" below). Since FY21, 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. (see "*The Issuer is exposed to credit risk in relation to financing provided to SMME's and Corporates pursuant to strategic relationships* "and *"Credit concentration risks*" below).

The second category is as a result of the Issuer having a significant cash buffer and additional surplus cash deposited with local financial institutions, which in turn leads to credit risk on those counterparties.

The third category relates to funds placed with SARB for regulatory reserving purposes as well as the investment in high quality liquid assets, such as treasury bills and government bonds, for prudential liquidity and liquidity management purposes. (See "*The Issuer is exposed to credit risk through deposits held at local financial institutions and sovereign exposure*".)

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

The Issuer's 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 the Issuer's customers or arising from systemic risk in the financial sector could reduce the value of the Issuer's assets as a result of increased impairment provisions. In particular, the Issuer's results of operations have been and will be affected by the level of impairment provisions applied to its advances portfolios. In addition, the Issuer provides unsecured lending and focuses on providing loans and credit cards to lower and middle-income customers and, accordingly, its advances portfolio displays a higher proportion of impaired loans when compared to other large South African banks whose advances portfolios are primarily composed of secured lending and loans to a broader spectrum of customers. As a result, net credit impairment charges could grow as a percentage of gross advances as the Issuer seeks to grow its advances portfolio.

The Issuer underwrites new loans utilising in-house-developed statistical scorecards, various affordability calculations as well as a number of business rules, which are monitored on a monthly basis and adjusted when necessary.

Despite these policies, it is possible that they will not function as intended due to external market factors or human or information technology ("**IT**") errors. Many factors affect the ability of the Issuer's customers to repay their loans. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, bankruptcy rates, and increased market volatility, might be difficult to anticipate and are completely outside of the Issuer's control. If macroeconomic conditions in South Africa deteriorate further (whether due to the impacts of Covid-19, further sovereign credit-rating downgrades, socio-political instability, higher unemployment rates, or other conditions), there can be no assurance that the level of the Issuer's non-performing advances and credit impairment provisions will not increase. This, in turn, could have an adverse effect on the Issuer's financial condition or results of operations.

Furthermore, credit methodologies are fallible by their very nature. Their actual performance depends on customers behaving as predicted by statistical models and is dependent on various external factors, such as economic conditions, and internal factors, such as collections strategies. If any of these controls fail and customers fail to repay their loans as predicted, this could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to credit risk in relation to financing provided to SMME's and Corporates pursuant to strategic relationships.

Following from the new strategy set at the end of FY21 (see "*Description of the Issuer – Strategy"*), several new strategic initiatives have been and will be pursued by the Issuer with a view to diversifying the product offering to target non-retail client base such as SMMEs and strategic corporate partners.

Any new offering of loan products (including secured loan products) by the Issuer to SMMEs in pursuance of the Issuer's FY25 strategy to "*expand the core*" (see "*Description of the Issuer – Strategy"*) will also be subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from such SMMEs.

The Issuer has and may in the future grant corporate financing where this is aligned to a broader strategic relationship with the relevant corporate ("**Corporate Borrowers**"). The quantum of such corporate financing may in some cases result in concentration risks (see "*Concentration Risk*" below).

Implementing this new strategy gives rise to credit risk, particularly the risk relating to the recoverability of loans made to, and amounts due from, SMMEs and Corporate Borrowers. Changes in the credit quality of the SMMEs and Corporate Borrowers or arising from systemic risk in the financial sector could reduce the value of the Issuer's assets, resulting in increased credit impairments. Many factors affect the ability of such SMMEs 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.

Further, any associated strategic relationships with such Corporate Borrowers, in pursuit of which such corporate funding may have been granted, are subject to the successful development and implementation of the Issuer's strategy which will require difficult, subjective and complex judgements and are contingent upon a range of factors, many of which are beyond the Issuer's control, including market conditions, the general business environment, the activities of consumers, changes in the social and socio-economic environment and the political environment.

There can be no assurance that the Issuer will be able to successfully implement all or part of its strategy or implement it when expected or targeted in respect of such strategic relationships and if business circumstances for SMMEs or such Corporate Borrowers deteriorate, the level of the Issuer'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

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 "*The Issuer is exposed to credit risk in relation to financing provided to SMMEs and Corporates pursuant to strategic relationships*" above).

While the Issuer can manage 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, there can be no assurance that these measures will adequately protect the Issuer against unexpected losses, which, in turn, would have an adverse effect on the Issuer's financial condition.

The Issuer is exposed to credit risk through deposits held at local financial institutions and sovereign exposure.

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

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

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 its advances book comprises loans to individuals and corporates in South Africa and its Retail Deposit and transactional banking activities are located only in South Africa. As a result, the Issuer faces a geographic concentration risk. South Africa is generally considered to be a developing economy. Investors in developing economies such as South Africa should be aware that these markets are subject to greater risk than more developed markets. These risks include economic instability as well as, in some cases, significant legal, political, social and socio-economic risks.

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

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

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

Any adverse changes affecting the South African economy or increases in political instability (whether actual or perceived) could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer's personal loan customers, who generally have relatively modest incomes, are particularly affected by macroeconomic factors, such as the impact of the Covid-19 pandemic including salary reductions and job losses, inflation (in particular fuel and food price inflation), unemployment and the general cost of living, and generally have less capacity to deal with financial emergencies and reductions in disposable income than higher income groups.

If the rate of economic growth in South Africa slows or other macroeconomic factors do not perform as expected, the Issuer's customers could reduce their demand for its products and services, or 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.

INFORMATION TECHNOLOGY RISKS

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

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

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

In particular, the Issuer's lending platform is enabled and supported by an IT system, designed for the Issuer's business model, and is a core element of the Issuer's credit scoring process. Further, the transactional banking platform implemented by the 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.

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

The Issuer collects and processes personal data (including names, addresses, age, bank and credit card details and various other personal information) from its customers, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws and industry standards in South Africa (including in particular the POPI Act, the majority of the operative provisions of which came into force on 1 July 2020, with a twelve-month grace period for final implementation). See *"Description of the Issuer – Risk Management – Information and Technology Risk management – The POPI Act"*.

The POPI Act 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, the Issuer is required to comply with the Payment Card Industry Data Security Standard as part of its contractual obligations to merchant acquirers.

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

OPERATIONAL AND BUSINESS RISK

The Issuer is exposed to operational risk.

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

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

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

The Issuer is exposed to the risk of financial loss due to fraud, bribery and corruption by various parties including, without limitation, crime syndicates. While the Issuer maintains training programmes, codes of conduct and other safeguards to prevent the occurrence of fraud, bribery and corruption, including by employees, members of the Boards or other key personnel, directly or indirectly, whether under duress, undue influence or acting in collusion with third parties (e.g. organised crime), it may not be possible for the Issuer to detect or prevent every such instance of this type of activity on every occasion. The Issuer may therefore be subject to losses or civil and criminal penalties where its employees engage in any impermissible or illegal activity, which may have a materially adverse impact on the Issuer's reputation, business, financial condition, results of operations and prospects.

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

South Africa has regularly experienced high levels of trade union activity. A number of trade unions in various industries have undertaken industrial action, including strikes, in South Africa over a number of years, which

have caused work stoppages and production losses. The increase in trade union activity, and increased political pressure on labour-related matters, including public debates regarding the relaxation of labour laws, may increase the likelihood or frequency of industrial action in South Africa or impact labour negotiations as will the other policy decisions recently taken by government such as the restructuring of economically critical state-owned enterprises.

If, as a result of further increased labour action, customers of the Issuer find themselves out of employment or on strike, these customers' ability to repay their loans to the Issuer could be affected, which may result in more bad debts held by the Issuer.

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

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

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

The Issuer's market position may deteriorate if its competitors deploy greater financial resources, have access to lower-cost funding or operate at a lower cost due to a less regulated environment (compared to banks, for example) or are able to offer a broader suite of products than the Issuer. The Issuer may also be unable to introduce new products and services ahead of its competitors and would therefore not derive any competitive advantage from being first-to-market. Failure to compete effectively in the South African market would, therefore, have a material adverse effect on the Issuer's business, financial condition, results of operations and its longer-term objective of building a scalable, sustainable bank with a diversified business.

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

The Issuer's unsecured loan portfolio, its largest asset, is not generally insured, although customers are required to take out credit life insurance, and in most instances take out credit life insurance offered by the Bank which is underwritten by Guardrisk. See "*Description of the Issuer – Business of the Issuer – Credit Life Insurance*" for further detail.

The scope of insurance policies maintained by and available to the Issuer may vary from that of insurance policies typically maintained by financial institutions in more developed economies. Furthermore, the level of the Issuer's debt recovery rates in respect of customers' credit life insurance covered by Guardrisk insurance will depend on the ability of Guardrisk to meet its obligations under the relevant insurance policies. This underwriting risk in the insurance portfolio in respect of loans granted by the Issuer is retained within the cell captive arrangement (described below in "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*"). Any uninsured loss or a loss in excess of insured limits could adversely affect the Issuer's business, financial condition, results of operations and prospects.

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

From time to time, the International Accounting Standards Board (the "**IASB**") changes the international financial reporting standards issued by the IASB that govern the preparation of the Issuer's financial statements.

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

The Issuer is exposed to market risk.

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, which is caused by adverse movements in market variables. The Issuer's key market risks are foreign currency risk and interest rate risk in its banking book.

With regard to foreign currency risk, the Issuer's liabilities as at the Information Date include CHF denominated Notes (which are fixed-rate senior debt instruments) issued under the EMTN Programme, in respect of which the final maturity date is 22 April 2022. These CHF Notes are hedged by foreign currency deposits.

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

- its loan portfolio is comprised of fixed-rate personal loans and variable-rate credit cards;
- its excess cash is deposited at other banks, 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;
- it has a growing Retail Deposit portfolio that comprises predominantly fixed-rate term up to 5 years and notice deposits.

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

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

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

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

MODEL RISK

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

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

Model risk for the Issuer arises from three primary sources:

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

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

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

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

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

REPUTATIONAL RISK

The Issuer's reputation in the wholesale capital markets and in the sector in which it operates could be negatively affected.

An entity's reputation is one of its most important assets. Reputational risk is a risk of loss resulting from damages to an entity's reputation, 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 fund providers alike is dependent on maintaining a good reputation amongst clients and fund 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.

FUNDING AND LIQUIDITY RISK

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

The Issuer is exposed to funding and liquidity risk.

The Bank 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. Liquidity risk is the inability to discharge funding or trading obligations as and when they fall due.

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 issuing of new DMTN's following the release of its financial statements for FY19, the conclusion of the shareholder liquidity support arrangement during FY20 (see "*Capitalisation and Indebtedness - Primary Sources of Funding and Liquidity for the Issuer - Shareholder Liquidity Support*" for more information on the shareholder liquidity support arrangement) and regular new DMTN issuances since the start of FY20 demonstrate an increase in investor confidence in the Issuer.

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 resulting in a liquidity shortage. If traditional funding sources are unavailable to the Issuer, it would be required to seek to utilise other, possibly more expensive, sources to meet its funding needs, to the extent that these other funding sources are available to it. In the event that such alternative funding sources are available (but at an increased cost) this could decrease the Issuer's net profit margins and have a material adverse effect on its business, liquidity, financial condition, results of operations and prospects.

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

The Issuer's credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding as well as its ability to obtain funding at all. It is anticipated that rating agencies will regularly evaluate the Issuer and their ratings of the Issuer's long-term debt will be based on a number of factors, including the sustainability and diversification of the Issuer's business model, quality of earnings, capital adequacy levels, credit exposure, the Issuer's risk management framework and funding diversification. Each Applicable Pricing Supplement will contain the rating of the Issuer at the relevant Issue Date. Any change in the Issuer's credit rating will be announced on SENS.

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

A downgrade or potential downgrade of the South African sovereign rating, a change in rating agency methodologies relating to systemic support provided by the South African sovereign or a change in the long-

term foreign currency issuer default ratings for South Africa could increase the cost of financing of the South African public debt. This may result in increased taxation and lower government spending in South Africa, as well as raise the cost of funding for the Issuer and reduce access to capital markets and the profitability of the Issuer, all of which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

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

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

Since the establishment of this Cell Captive arrangement in early 2016 (see "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*"), when AIG has received dividends on the Cell Captive Shares, it has predominantly distributed these to ABH as its shareholder. ABH has, in turn, elected to either deposit distributions it receives from AIG with the Issuer, in all or part, or in other liquid investments outside of the ABH Group. In FY21, ABH utilised some of these distributions to invest in further Common Equity Tier 1 Capital in the Issuer. When ABH has elected to deposit any such amounts in the Issuer, it does so within the exposure limits set by its Board on arms-length commercial terms as a corporate deposit. From time to time, AIG has invested available funds in the Issuer on arms-length commercial terms, pending a declaration of such funds as a dividend to ABH.

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

REGULATORY RISK

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

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

All banking operations and various ancillary financial services in South Africa require certain licences and registrations from the various registrars and authorities that exercise their regulatory powers under the auspices of the FSCA, the NCR and the Banks Act. The Prudential Authority has the ability to cancel, suspend or revoke the registration or licence of the Issuer if it fails to comply with certain regulatory requirements. There is no assurance that the Issuer will be able to adhere to these regulatory requirements. A breach of the terms of a licence by any of the Issuer's entities or the failure to obtain a licence in the future could result in cash flow difficulties and penalties which may include temporary administration of the Issuer by the Prudential Authority

and/or fines imposed by the Prudential Authority on the Issuer, which may, in turn, affect the Issuer's ability to fulfil its payment obligations, and would have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

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

The Issuer is subject to on-going regulation and the associated regulatory risks including the effects of changes in laws, regulations, policies and interpretations. See "*Risks relating to the Notes and markets generally – Change of Law*".

The Issuer will continue to assess the impacts of legal and regulatory developments which could have an effect on the Issuer and will participate in relevant consultation and collaboration processes undertaken by various regulatory and other bodies. Nevertheless, implementation of regulatory developments could result in additional costs or limit or restrict the way that the Issuer conducts business, which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

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

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 is also intended to 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 commencement date of the various sections of the FSLA Act has not yet been determined.

The FSLA Act, when implemented, 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

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

The introduction of the National Credit Amendment Act 7 of 2019, which was signed into law during August 2019 has impacted and may further impact the Issuer's credit risk appetite, resulting in a tightening by the Issuer of its underwriting policies which could have a material adverse effect on the level of the Issuer's advances.

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

Conduct Standard for Banks

With the introduction of the FSR, 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 by the Issuer.

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

The Issuer is required by SARB to comply with certain capital adequacy ratios and other prudential ratios and requirements. The capital adequacy regime in South Africa and globally has been subject to significant change in recent years. The Issuer's ability to maintain its ratios and other prudential requirements could be affected by a number of factors, including:

(a) an increase of the Issuer's Risk Weighted Assets;

(b) the Issuer's ability to raise capital, including a change in the ability of ABH to make capital contributions to the Issuer;

(c) losses resulting from a deterioration in the Issuer's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;

(d) changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and

(e) increases in minimum capital adequacy ratios imposed by SARB.

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

The Issuer's ability to raise capital may be limited by numerous factors, including general economic and financial conditions, the availability of funding in the capital markets generally or from the Issuer's shareholders, investor confidence, sentiment towards the South African economy and the credit rating, financial condition and results of operations or prospects of the Issuer. There can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Any failure to raise additional capital in the future (whether on favourable terms or at all) may restrict the Issuer's growth plans including its ability to grow its loan portfolio and could also impact the Issuer negatively if it was subject to regulatory action as a result of being unable to raise the required amount of regulatory capital.

RISKS RELATING TO THE NOTES AND MARKETS GENERALLY

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

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

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

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

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

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

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

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

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

Investors in emerging markets such as South Africa should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors in the Notes should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment in the Notes is appropriate. Generally, investment in emerging markets such as South Africa is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

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

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

The FSLA Act was published on 28 January 2022, but, as at the Information date, the commencement of that act is still to be determined. When the FSLA Act becomes effective, it will amend the FSR Act to include the legislative framework for the orderly Resolution of banks, systemically important non-bank financial institutions and holding companies of banks or systemically important non-bank financial institutions that are designated by the Governor of the SARB as systemically important.

In 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 would also be entitled to perform its Resolution powers in relation to a liability of the designated institution in a way that results in the liability being substituted with a shareholding in the designated institution.

If statutory bail-in is adopted in South Africa, the exercise of this Resolution power in respect of the Issuer or any suggestion of any such exercise could materially adversely affect the value of any Notes and could lead to Noteholders losing some or all of the value of their investment in the Notes. In particular, prospective investors should note the risk of statutory loss absorption applicable to Tier 2 Notes set out in the risk factor headed "*Statutory Loss Absorption at the Point of Non-viability of the Issuer*" below.

Lack of liquidity in secondary markets for the Notes.

A prospective investor of the Notes should be aware of the prevailing and widely reported global credit market conditions (which continue at the Information Date), whereby there is a general lack of liquidity in the secondary markets for instruments similar to the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Issuer cannot predict if and when these circumstances will change, and if and when they do, whether conditions of general market illiquidity for the Notes and instruments similar to the Notes will return in future. Illiquidity may have a severely adverse effect on the market value of the Notes.

There is no active trading market for the Notes.

Notes issued under the Programme will be new securities, unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single Series with a Tranche of Notes which is already issued. In

either case the Notes may not be widely distributed and there may be no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer.

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

There is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be subject to exchange rate risks and exchange controls.

The Issuer will pay the principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Fixed rate notes are subject to interest rate risks.

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

No limitation on issuing securities or indebtedness.

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

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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

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

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

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

Credit rating.

Tranches of Notes issued under the Programme and/or the Issuer may be rated or unrated. If a rating is assigned, such rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed herein, and other factors that may affect such Notes of the Issuer. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

U.S. Foreign Account Tax Compliance Withholding

Generally, if, pursuant to 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.

RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for prospective investors. Set out below is a description of certain such features:

Index-Linked Notes are subject to additional market risks.

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

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

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

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

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

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

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

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

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

Fixed/Floating Rate Notes are subject to additional risks.

Fixed/Floating Rate Notes may, if so specified in the Applicable Pricing Supplement, bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

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

Notes issued at a substantial discount or premium.

The market values of securities issued at a substantial discount or premium from their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may be redeemed prior to maturity.

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

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms or Pricing Supplement specify that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes.

At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Prospective investors should consider reinvestment risk in light of other investments available at that time.

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

The Notes may be repurchased prior to maturity.

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

A Tier 2 Note may be redeemed, or purchased and cancelled before maturity only at the option of the Issuer and only with the prior written approval of the Relevant Regulator under the Regulations Relating to Banks.

Trading in the clearing systems.

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

Modification and waivers.

The Terms and Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change of law.

The Notes are governed by, and will, unless otherwise specified in the Applicable Pricing Supplement, be construed in accordance with South African law in effect the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to South African law or administrative practice after the Information Date. Changes in South African law may include, but, are not limited to, the introduction of a variety of statutory resolutions and loss absorption tools which may affect the rights of holders of securities issued by the Issuer, including the Tier 2 Notes. Such tools may include the ability to write off sums otherwise payable on such Tier 2 Notes at a time when the Issuer is no longer considered viable by the Relevant Regulator or pursuant to the Capital Regulations (as defined in the Conditions) or upon the occurrence of another trigger event. See "*Risks relating to the Tier 2 Notes*".

RISKS RELATING TO THE TIER 2 NOTES

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

The payment obligations of the Issuer under the Tier 2 Notes will rank behind claims of Depositors and Senior Creditors (including holders of Senior Notes). See Condition 5.2 in respect of the Terms and Conditions of the Tier 2 Notes for a full description of subordination and the payment obligations of the Issuer under Tier 2 Notes.

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

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

There is no restriction on the amount of securities or indebtedness which the Issuer may issue or incur which rank senior to or *pari passu* with any Tier 2 Notes. The issue of any such securities or indebtedness may reduce

the amount recoverable by holders of Tier 2 Notes on any of a winding-up, liquidation, Resolution or curatorship of the Issuer.

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

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

In addition, the rights of Tier 2 Noteholders are limited in certain respects. In particular, if the Issuer defaults on a payment of principal or interest due on any Tier 2 Notes for a period of ten days or more, such Tier 2 Noteholders may only institute proceedings for the winding-up of the Issuer (and/or prove in any winding-up of the Issuer) but take no other action in respect of that default. Only if an order is made or an effective resolution is passed for the winding-up of the Issuer (other than pursuant to a Solvent Reconstruction) shall such Tier 2 Noteholder be able to declare (upon written notice) such Tier 2 Notes immediately due and payable (and in this regard, see "*Notes may be subordinated to most of the Issuer's liabilities*" above).

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

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

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

Further, when a Tier 2 Note is issued, it may be redeemed, or purchased and cancelled before maturity only at the option of the Issuer and only with the prior written approval of the Relevant Regulator under the Regulations Relating to Banks. In addition, in compliance with the Regulations Relating to Banks, the terms and conditions of such Notes will not entitle the Noteholders to accelerate the repayment of future scheduled repayments such as interest coupon or principal, except in the case of bankruptcy or liquidation.

The Tier 2 Notes may be subsequently excluded as Tier 2 Capital or be adversely affected as a result of a Regulatory Event. See "*Statutory Loss Absorption at the Point of Non-viability of the Issuer*" below for further detail.

Statutory Loss Absorption at the Point of Non-viability of the Issuer.

Basel III requires the implementation of certain non-viability requirements as set out in the press release dated 13 January 2011 of the Basel Committee entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**Basel III Non-Viability Requirements**"). The Basel III Non-Viability Requirements represent part of the broader package of guidance issued by the Basel Committee on 16 December 2010 and 13 January 2011 in relation to Basel III.

Under the Basel III Non-Viability Requirements, the terms and conditions of all additional tier 1 and tier 2 instruments issued by an internationally-active bank must have a provision that requires such instruments, at the

option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a trigger event (described below) unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such tier 1 and tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss (a "**Statutory Loss Absorption Regime**" or "**SLAR**");

(b) a peer group review confirms that the jurisdiction conforms with paragraph (a) above; and

(c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under paragraph (a) above.

The trigger event is the earlier of: (1) a decision that a write off, without which the issuing bank would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public-sector injection of capital, or equivalent support, without which the issuing bank would have become non-viable, as determined by the relevant authority.

Regulation 38(12) of the Regulations Relating to Banks refers to the need for the Basel III Non-Viability Requirements to be reflected in the terms and conditions of a tier 2 instrument (defined below) unless a duly enforceable SLAR is in place. Since 2012, the SARB has provided clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in various guidance notes and circulars, with only Guidance Note 6 of 2017 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) ("**Guidance Note 6**") remaining effective at the Information Date. In Guidance Note 6, SARB indicated that it, together with National Treasury, was in the process of drafting legislation that will provide for a detailed SLAR.

No official statement has however been made as to when the SLAR will be implemented in South Africa. However, in January 2022, the FSLA Act, which provides the legislative framework for the orderly Resolution of banks and other systemically important institutions was promulgated. However, the commencement date of the operation of the FSLA Act has not, at the Information Date, been announced. 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 capital instruments), provided no such action may be taken which would result in the relevant shareholder or creditor receiving less than the shareholder or creditor would have received if the designated institution had been wound up.

Until the FSLA Act is effective and 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 capital instruments ("**tier 2 instruments**") issued, whether such instruments would be either written-off or converted into the most subordinated form of equity of the bank and/or its controlling company (such conversion, "**Conversion**") at the occurrence of a trigger event determined in the Prudential Authority's discretion, as envisaged in Regulation 38(12)(a)(i) of the Regulations Relating to Banks. To the extent that any tier 2 instruments are issued prior to the commencement of the Statutory Loss Absorption Regime, such tier 2 instruments will have to contractually provide for write-off or Conversion at the discretion of the Relevant Regulator at the occurrence of a trigger event (as write off and Conversion are understood and applied in terms of the regulatory framework applicable at the time of the issuance of such tier 2 instruments) in order to qualify as Tier 2 Capital.

Notwithstanding the requirement to provide for write-off and/or Conversion in the contractual terms and conditions of a tier 2 instrument, paragraph 6.3 of Guidance Note 6 provides that banks have the option to elect to have the contractual terms and conditions of any tier 2 instruments issued prior to the implementation of the Statutory Loss Absorption Regime dealing with write off and/or Conversion replaced with the Statutory Loss Absorption Regime upon its commencement.

In Guidance Note 6, the Relevant Regulator has advised that it is foreseen that once the Statutory Loss Absorption Regime becomes enforceable, the contractual terms and conditions regarding Conversion or write

off of instruments already issued and qualifying as regulatory capital are likely to take precedence over the relevant statutory legislation requirements, once the specified trigger event is breached. Therefore, unless the Issuer elects to have the contractual terms replaced with the Statutory Loss Absorption Regime as contemplated above, the contractual terms and conditions under which Notes are issued are likely to remain in force for the capital instruments issued prior to the introduction of the relevant statutory legislation. Despite this, the wording of Guidance Note 6 is unclear on whether Tier 2 Notes that remain subject to the contractual write off/conversion provisions after the commencement of the Statutory Loss Absorption Regime continue to qualify as Tier 2 Capital where such provisions are in conflict with the write off/conversion provisions in the Statutory Loss Absorption Regime.

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

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

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

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, projections, forecasts, estimates and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These include changes in the external environment and to prevailing market conditions, including, as an example, the manner in which the Covid-19 pandemic could further unfold in South Africa and globally.

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

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

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Fiscal and calendar years

The Issuer's financial year ends on 30 September. In this Information Memorandum, in order to distinguish between financial years and calendar years, the following conventions are adopted: (i) calendar years are referred to as "calendar year [YEAR]" or simply "[YEAR]" and (ii) the Issuer's financial year is referred to as the "year ended or year ending 30 September [YEAR]" or as "Financial Year [YEAR]" or as "FY[last 2 digits of YEAR]". For example, the 12-month period ended 30 September 2021 is referred to as Financial Year 2021 or FY21.

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

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. The Issuer has not issued any additional tier 1 capital and, as at the Information Date, does not have any Tier 2 Capital in issue.

Basel III also prescribes two minimum liquidity standards for funding liquidity, namely an LCR, which became effective on 1 January 2015 and aims to ensure that banks maintain an adequate level of high-quality liquid assets to meet liquidity needs for a 30-calendar day period under a severe stress scenario, and an NSFR, which became effective in South Africa on 1 January 2018 and aims to promote medium and long-term funding of banks' assets and activities.

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

PRIMARY SOURCES OF FUNDING AND LIQUIDITY FOR THE ISSUER

Information regarding the funding and liquidity of the Issuer, and maturity profile of the Issuer's funding liabilities will be found in the most recently published financial statements of the Issuer and ABH Integrated Report available at the relevant time. These financial statements and the ABH Integrated Reports are available on the website of the Issuer (www.africanbank.co.za under the *"**Investors" – "Corporate Information" "Financial Reporting**"* path in such website*)*.

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

Retail Deposits

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

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

Retail deposits now also include a growing transactional banking deposit base in the MyWORLD customer account balances. (See the section *"Description of the Issuer – Business of the Issuer – Transactional Banking*".)

The Bank has achieved success in growing its Retail Deposit book since introducing the Retail Deposit business in FY17. This growth in Retail Deposits is aligned with the Issuer's strategy to diversify its funding base. Investors and prospective investors should refer to the most recently published financial statements of the Issuer and ABH Integrated Report for the latest information regarding the Issuer's funding.

Notes

In addition to DMTNs issued under the Programme, EMTNs have also been issued by the Issuer under a US$6 billion Euro Medium Term Note Programme ("the **EMTN Programme**") established in 2016. The following summary of certain provisions of the Issuer's other programmes and agreements does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

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

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

Bilateral Corporate Deposits

The Issuer has created a set of standard common terms and conditions to regulate the non-economic conditions applicable to each category of Bilateral Corporate Deposits issued by the Issuer, which (non-economic) common terms cater for the following categories of debt instruments:

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

In addition to the common terms and conditions, each category of Bilateral Corporate Deposits has terms and conditions which are specific to their category. Investors and prospective investors should refer to the most recently published financial statements of the Issuer and ABH Integrated Report for the latest information regarding the Issuer's funding.

ABH and AIG Funding

Since the establishment of the Cell Captive arrangement in early 2016 (see "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*"), when AIG has received dividends on the Cell Captive Shares, it has predominantly distributed these to ABH as its shareholder. ABH has, in turn, elected to either deposit distributions it receives from AIG with the Issuer, to use such distributions (as it did in FY21) to further capitalise the Bank, or invest such distributions in other liquid investments. When it has elected to deposit any such amounts in the Issuer, it does so on arms-length commercial terms as a corporate deposit. From time to time, AIG has invested available funds in the Issuer on arms-length commercial terms, pending a declaration of such funds as a dividend to ABH.

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

Shareholder Liquidity Support

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

The Bank's Board recognised that, to build a robust and sustainable long-term operating model, it needed to re-establish itself as a reliable and accepted counterparty in the domestic wholesale funding market. This support

arrangement will allow the Issuer to continue focusing on the delivery of its long term intention to diversify its funding base by increasing retail deposits while maintaining a commensurate level of wholesale funding.

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

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

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

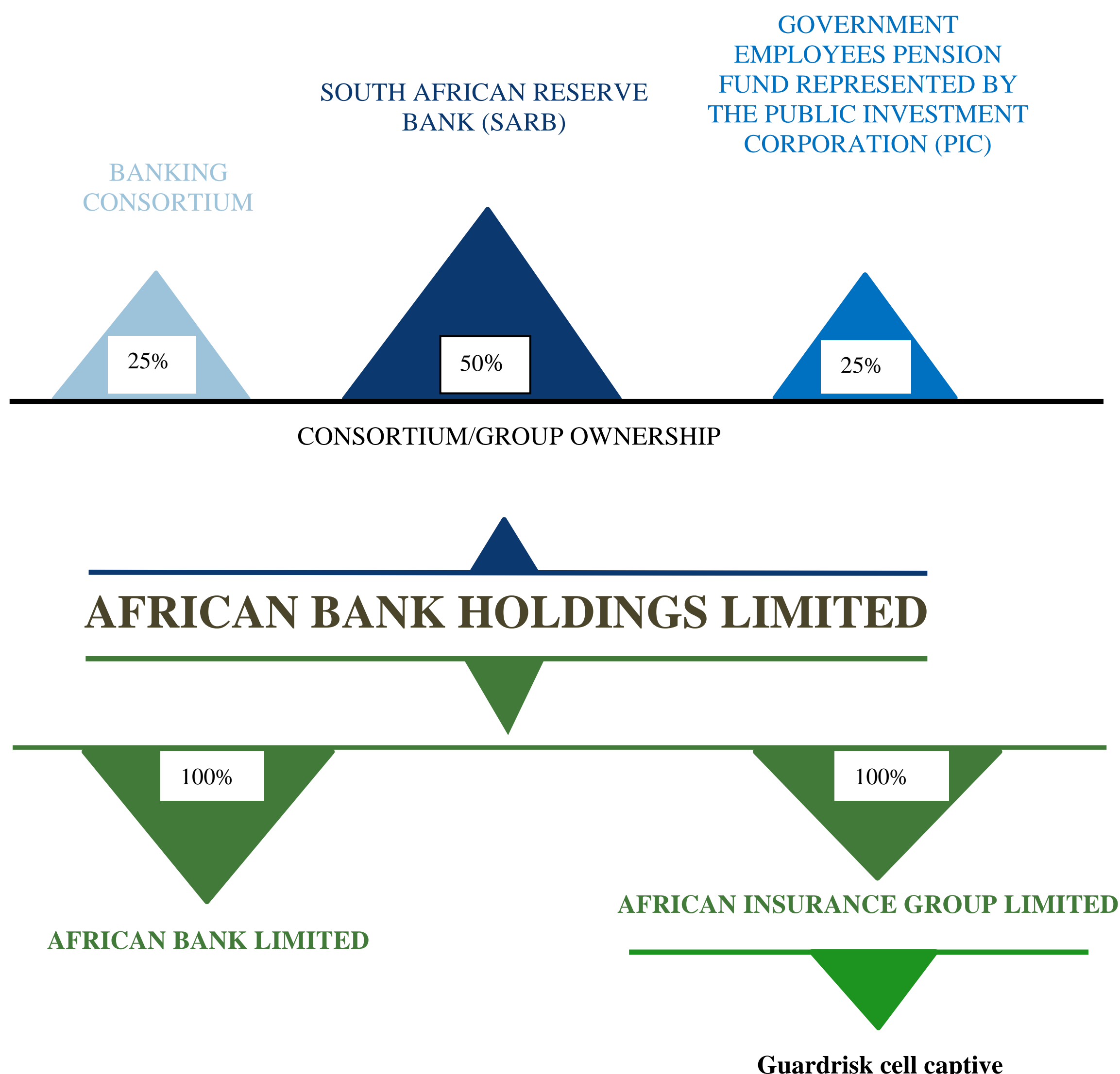
The loans advanced to the Issuer by SARB will be secured by a cession in security to the SARB of a portion of the Issuer's customer loan portfolio, with an initial cover ratio, based on the net asset value of customer loans, of 111%. In accordance with banking regulations, the Issuer will deduct from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

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

DESCRIPTION OF ABH GROUP

INTRODUCTION TO THE ABH GROUP

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



OVERVIEW OF THE VARIOUS ENTITIES COMPRISING THE ABH GROUP

African Bank Holdings Limited

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

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

African Insurance Group Limited

African Insurance Group Limited (registration number 2014/177424/06) ("**AIG**") is the intermediate holding company for all the present and future insurance interests in the ABH Group and is responsible for monitoring

and ensuring compliance with the governance, risk and solvency requirements set out in the applicable insurance sector legislation. AIG is the registered and beneficial owner of the Cell Captive Shares and is contractually obliged to capitalise and fund the Cell Captive (as defined and further explained in "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*").

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

The Issuer

The Issuer was originally incorporated to acquire certain business and assets from RDS with effect on 4 April 2016. The Issuer is a direct, wholly-owned subsidiary of ABH and it holds all the licences, registrations and approvals required to conduct its business (including licenses and approvals required in terms of the Banks Act, the NCA and FAIS).

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

BOARD AND CORPORATE GOVERNANCE STRUCTURES IN THE ABH GROUP

For information on the composition of the Bank's Board, investors and prospective investors are referred to Annual Governance Report (which is issued annually at the same time as the audited financial statements are released) and any changes to such information after the date of such report will be available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "About Us" "Our Company"– "The Board"*** path in such website).

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

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

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 Report available on the website of the Issuer (www.africanbank.co.za under the "***Investors" – "About Us" "Our Company"– "The Board"*** path in such website).

Since the publication of the Annual Governance Report for FY21, the SPLEC was established as a permanent board committee at an ABH level (and for more details on this, see "*Description of the Issuer – Risk Management –Strategic Risk and Business Risk Management – Management of Strategic Risk and Business Risk*") and a further sub-committee of RCMC was established in pursuance of the Group's internal risk policy for the purpose of ensuring that liquidity and funding contingency plans are appropriately considered and to act as an ad-hoc committee to the Board to execute on such plans, should a stress event or potential stress event occur.

DESCRIPTION OF THE ISSUER

HISTORY AND OVERVIEW

African Bank Limited (the "**Issuer**" or the "**Bank**") was registered as a public company under registration number 2014/176899/06 on 9 September 2014 with the Companies and Intellectual Property Commission established under section 185 of the Companies Act. The Issuer was registered specifically to acquire 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.

Pursuant to this strategy:

- during 2016, the Issuer began the process of changing its inherited operating model from a relatively manual, branch-based, information technology-enabled model to become a predominantly digital bank, supported where appropriate by branch-based infrastructure capable of delivering transactional banking and other products in addition to unsecured lending products. This required substantial investment by the Issuer, including a 'Big Data' investment as part of the transition to transactional banking as well as a complete overhaul of its 'digital' channel 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*");
- the Issuer has actively diversified its funding base, targeting Retail Deposits of up to five years and in September 2020, the Issuer entered into shareholder support and assistance arrangements with the Consortium members who have undertaken to provide certain support facilities to the Issuer over a period ending on 31 March 2024 which has assisted the Issuer in re-establishing itself in the debt capital markets. (See "*Capitalisation and Indebtedness - Primary Sources of Funding and Liquidity for the Issuer – Retail Deposits"* and "*Shareholder Support*").
- the Group undertook and continues to undertake a rigorous examination of the governance and risk management structures and processes established within the ABH Group. The focus of these processes was and is to clearly and comprehensively define the ABH Group's risk appetite and risk parameters. (See the Annual Governance Report for further detail about risk management structures established in the ABH Group as well as the section "*Description of the Issuer – Risk Management"*.)
- the Issuer implemented a number of refinements of and recalibrations to its credit scorecard in 2016 and 2017 as a result of reduced risk appetite. A further significant scorecard recalibration occurred in October 2018 and again at the end of August 2019 due to a weakened macro-economic environment. Anticipating the negative impacts of an extended national lockdown due to Covid-19 on the financial well-being of consumers, the Issuer implemented further credit-tightening measures in April and August 2020. This reduced risk appetite has resulted in the Issuer lending more to lower-risk clients. A key outcome of these credit-tightening measures was reduced disbursement levels to customers. However, in FY21 the Issuer cautiously relaxed and normalised some of its credit criteria, leading to an increase in disbursements in the

second half of FY21. (For the most recent and more detailed information regarding the most recent credit risk policies applied by the Issuer as well as the impact of those policies on disbursements, loan size and loan term, Investors and prospective investors should refer to the most recent ABH Integrated Report at the relevant time.)

- the provisioning methodologies of the Issuer have been reviewed and improved to reflect credit impairments more accurately and conservatively. Advances are considered impaired if there is objective evidence of impairment as a result of events that occurred after the initial asset recognition. (See "*Description of the Issuer – Risk Management – Credit Risk*".)

In FY21, an extensive strategy review was undertaken, the outcome of which was a restated vision and a new FY25 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 ABH, which is a registered bank controlling company. The Issuer does not currently have any subsidiaries of its own.

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

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

o SARB: – 50%;

o GEPF: – 25%;

o Absa Bank Limited*: – 4.95%;

o Nedbank Limited: – 4.10%;

o FirstRand Bank Limited: – 6.55%;

o Investec Bank Limited: – 2.45%;

o The Standard Bank of South Africa Limited: – 5.95%; and

o Capitec Bank Limited: – 1.00%.

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

During FY20, the SARB announced that it intended to relinquish its shareholding in ABH after previously publicly stated 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 ABH and as the majority shareholder of ABH. 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.

STRATEGY OF THE ISSUER

Following from an extensive and intensive strategy review during FY21, a restated vision and a new FY25 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*" To support its purpose, the Bank has adopted a restated vision to ensure organisation-wide clarity and direction which vision is "*to create a scalable, sustainable bank with a diversified business that will become a listable entity – for the people, by the people and serving the people"*.

The restated vision encapsulates three broad principles:

- First, recognising the importance of creating a scalable and sustainable organisation with a diverse product offering and service delivery model.
- Second, articulating the Group's medium-term aspiration to be an entity that could be listed on the Johannesburg Stock Exchange, where its investment proposition is attractive to a broader shareholding base, which includes the Group's employees, partners and customers.
- Third, acknowledging that the Bank exists to serve South Africans across all walks of life.

In order to achieve this purpose, the Issuer's strategy rests on the following pillars:

- a central pillar which focusses on strengthening the core business of the Group by:
    - digitisation to improve end-to-end customer journeys and drive growth;
    - securing and enhancing the Group's IT systems;
    - increasing sales cross-sell and driving growth; and
    - distribution optimisation through additional distribution opportunities; and
- supporting pillars, which seek to expand the Group's core business by:
    - increasing the Group's customer base and market segments; and
    - developing a digital offering for SMMEs,

  with the intention that this expansion will come from updating the Bank's product range and customer reach, and from strategic partnerships and expanding the Bank's customer base.

The foundation of the FY25 strategy consists of three tiers comprising (i) digital ways of working, (ii) its sustainability levers and (iii) the Group's values.

Digital ways of working focuses 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 FY25 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-proofed, our customers will always remain at the centre of everything we do. This lever measures customer satisfaction through both external, independent surveys and the growth of our customer base*".
- **social responsibility lever:** "*revolves around our African Bankers. It ensures our people 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**: "*is about continuing 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, it will allow us to contribute holistically to our customers, our African Bankers, our communities and our partners".*
- **inclusivity lever:** "*relates 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 our focussed investment in enterprise and supplier development*".

- **environmental protection lever:** "*promotes greater awareness of our role in protecting the environment 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 emissions management and, in the medium-term, indirectly through new product and service offerings linked with the green economy. social responsibility lever revolves around our African Bankers and ensures that they develop and thrive within the company and continue to drive various corporate social initiatives within the communities we live and work in*"

The Group's values are:

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

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

DELIVERING ON THE STRATEGY

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

Performance against these indicators is reported to the market at an ABH level semi-annually as part of the release of interim and final financial results of ABH 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 Bank 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. For further information in this regard see "*Description of the Issuer – History and Overview*" above.

At the end of FY21, the 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;
- high interest rate savings and investments;
- personal loans;
- 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 the Bank's credit products.

Since the end of FY21 and in pursuance of the FY25 strategy described above to "*strengthen the core*" and to "*expand the core*" (see "*Description of the Issuer – Strategy"*), 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. 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 Bank. Since the launch of the Bank, it has invested an enormous amount of time and effort, alongside the appropriate financial investment, into building the *MyWORLD* offering — an online account product that provides customers with combined savings and shared banking capabilities, and which the Bank believes it fits squarely into its purpose of making a positive difference to its customers' financial lives.

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

With MyWORLD, customers can bank, borrow, save and invest through the *MyWORLD* Product Platform. Some of the features include:

- access to a bank account with ZERO monthly account fees;
- 6 free bank accounts to share;
- a highly attractive interest rate on customer's positive balances;
- an option to apply for an overdraft facility when customer salaries are paid into their bank account;
- access to other product portfolio through the Bank's digital channels, a seamless Omni-channel experience where customers can start an application on the Bank's app and should, they so choose, complete the same request, with a consultant in the Bank's call centre or branch.

The Bank does not anticipate that the *MyWORLD* bank account offering will deliver significant returns to the Bank on a standalone basis. The longer term return on the investment into *MyWORLD* spans a number of key areas, including:

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

Personal loans

The Issuer provides unsecured loans to typically lower and middle-income customers in South Africa (being South African residents employed in the formal sector of the South African economy) focusing on offering loan products

to lower-risk customers. The eligibility criteria for the Issuer's loans will continue to require individuals to have a bank account in South Africa. The loan products originated by the Bank are typically term facilities, having maturities with fixed, equal monthly repayments. Information as to loan size and term can be obtained from most recent Issuer financial statements and ABH Integrated Report.

Credit cards

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

Credit life insurance

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

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

Funeral insurance

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

Cell Captive Arrangement

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

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

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

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

Financing to SMMEs and Strategic Corporate Partners

Pursuant to the FY25 strategy:

- to have a more diversified financial services business offering,
- to "*strengthen the core*" by finding ways to increase sale cross selling, and drive growth and additional distribution opportunities; and

- to "*expand the core*" by increasing the Bank's customer base and market segments,

the Issuer intends to update the Bank's product range and customer reach by developing a digital offering for SMMEs (to include, within its target ambit, informal traders). The intention is for such product offering to extend beyond unsecured lending. It is through this target product range and customers that the Bank intends to enter into the business banking market.

The Bank has actively worked and will continue to work to identify businesses in the corporate space with which to collaborate as strategic partners. Where a precondition of such collaboration requires financial investment (such as the advancing of corporate financing), the 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 the 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 and the Issuer - Credit Risk - Concentration Risk*").

Retail Deposits and investment products

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

During FY17, the Bank introduced a range of investment products, which includes a tax-free savings product, a fixed deposit, a notice deposit and an accumulator product. These products diversify the Issuer's funding base and are intended to provide an attractive alternative investment option for private retail investors wishing to diversify their investment portfolio.

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

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

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

Operational Channels

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

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

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

Information Technology

Availability of IT services is indispensable for the Issuer, and IT forms an integral part of the daily operations and strategy execution of the Bank.

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

There is a clear link between the Bank's strategic objectives and its IT focus and aligned to the Bank's strategy to "*strengthen the core"* is to enhance its technology platform and cyber security practices further, while improving the speed of delivery

Human Capital (*people – the African Bankers*)

Driving effective and sustainable organisational transformation remains a key element of the Bank's overall strategy in which the Bank 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;
- 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.

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

Business Insurance

All insurance coverage for the ABH Group (including the Issuer) has been placed at the ABH level. ABH has comprehensive insurance coverage, which includes the following:

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

The crime cover is intended to protect the ABH Group against direct financial loss suffered as a result of fraud, premises risk, transit, forgery and fraudulent alteration, forged securities, counterfeit currency, and also provides cover against third party computer crime.

The civil liability insurance protects the ABH Group against claims brought against it for financial losses suffered by a third party as a result of, *inter alia*, negligence, errors or omissions committed or omitted by employees of the ABH Group as well as the ABH Group's legal liability to third parties arising from the fraud of an employee.

COMPETITIVE LANDSCAPE

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

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

While registered banks are 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 Bank's market – the largely underserved to promote financial inclusion (which would include SMME customers to be targeted by the 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.

The Bank's established competitors continue to re-focus on core business areas, with some restructuring exercises accelerated to offset the challenges of the impacts of Covid-19.

CREDIT RATINGS

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

RISK GOVERNANCE FRAMEWORK

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

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

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

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

Annual Governance Report

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

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

- the board committees;
- the executive committee; and
- the risk management framework, process and objectives,

as at the end of the previous financial year for which audited financial statements have been issued.

Governance Policies

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

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

Directors and Company Secretary

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

The list of directorships of each director is contained in the most recent Annual Governance Report.

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

Directors Disclosure

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

- ever been declared bankrupt, insolvent, had individual voluntary compromise arrangements or been sequestrated in any jurisdiction;
- ever been involved, as a director with an executive function, in any business rescue plans and/or resolution proposed by any entity to commence business rescue proceedings, application having been made for any entity to begin business rescue proceedings, notices having been delivered in terms of section 129(7) of the Companies Act, receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any compromise or arrangement with creditors generally or any class of creditors of any company at the time of or within the 12 months preceding such event;
- ever been involved in compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where such director is or was a partner at the time of, or within the 12 months preceding, any such event;
- ever been involved in any receiverships of any assets(s) of such director or of a partnership of which such director is or was a partner at the time of, or within the 12 months preceding, any such event;
- ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
- ever been involved in any offence involving dishonesty;
- ever been convicted of any criminal offence involving dishonesty, fraud, theft, forgery, perjury, misrepresentation or embezzlement;
- ever been barred from entry into any profession or occupation;

- ever been convicted in any jurisdiction of any criminal offence or an offence under legislation relating to the Companies Act;
- ever been removed from an office of trust, or on the grounds of misconduct and involving dishonesty; and
- ever been subject to a court order declaring such director delinquent or placing such director under probation in terms of section 162 of the Companies Act and/or Section 47 of the Close Corporations Act, 1984 (Act No. 69 of 1984) or disqualifying him to act as a director in terms of Section 219 of the Companies Act, 1973 (Act No. 61 of 1973).

Debt Officer

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

Address: 59, 16th Road, Midrand, 1685, South Africa, +27 11 256 9000
E-mail address: debtofficer@africanbank.co.za

King IV

Consistent with King IV's "apply and explain approach" to disclosure, the Group considers and applies the principles of corporate governance that are relevant to it. The Issuer applies the King IV principles on the same basis as ABH. Details regarding ABH's implementation of the King IV principles are contained in the Annual Governance Report.

RISK MANAGEMENT

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

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

- Strategic risk
- Cyber-crime risk
- Shareholder Structure
- Human Capital Risk
- Credit risk

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

Covid-19 Risk Mitigation Response

This risk factor is described in *"Risk Factors – Risks related to the business of the Issuer and the Issuer - Covid-19"*. In response to the Covid-19 pandemic, the Bank was able to quickly adapt to the changing requirements brought about by varying degrees of Covid-19-related national lockdown measures by ensuring that:

- the Board and corporate office personnel could continue to effectively work remotely;
- branches and customer centres maintained best practice Covid-19 health and safety protocols;
- various customer platforms included improved functionality, enabling the steady progression to digital channels from a multi-platform offering, given improved technologies, improved security features and providing customers with user-friendly, convenient, 24/7 banking;
- investment in enhanced digital interventions, data scientist capabilities and exciting customer experiences were accelerated; and

- back-office structures were optimised, supported by the acceleration of the automation of more mundane administrative activities.

Strategic Risk and Business Risk Management

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

Management of Strategic Risk and Business Risk

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

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

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

The Issuer considers that strategic and business risk are risks that should be assessed together. The imperative of the Group is to ensure that both the existing business, as well as future strategic initiatives to diversify this business are successful as it continues to transitions from a monoline business to a well-diversified retail and business bank in South Africa that offers a diversified range of financial services to its customers in line with its strategy.

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

- ABH Board and the Group Executive Committee strategic planning sessions, culminating in the ABH Board strategy session in April of each year;
- The rolling three-year financial forecasting process, culminating in ABH Board sign-off, traditionally 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;
- Market analysis, including peer group analysis, presented annually to the Board in April of each year;
- 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.

As part of the FY25 strategy to "*expand the core*" (further details of which are set out above in the section headed "*Description of the Issuer – Strategy"*) the ABH Group, as special projects, will seek strategic relationships with corporate partners and, as an aspect of these special projects, the Issuer 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 –* "*The Issuer is exposed to credit risk in relation to financing provided to SMMEs and Corporates pursuant to strategic relationships* "and *"Credit concentration risks*").

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

- Special Projects:
    - 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.
- Large Exposures:
    - approval of exposures less or equal to 10% of the capital and reserves of the Bank or ABH, 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 ABH Group;
- the Chief Financial Officer of the ABH Group;
- the Group Risk Officer, or proxy/nominee
- the Head of Credit of the ABH Group, or proxy/nominee.

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

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

Cyber-Crime and Information Technology Risk Management

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

Cyber-security investment

The key sources of concern include the escalating sophistication of threats, increased volume of cyber-attacks in the world at large, and an ever-expanding cyber-attack surface. This increasing sophistication and

extent of cyber-crime, coupled with the introduction of transactional banking, led to the Bank making several key and innovative cyber-security investments in technology and employees in line with its security strategy. The Bank's mitigation response is:

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

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

Management of information technology risk

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

Information and technology risk management is 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 ABH Group assumes responsibility for all components of the ABH Group's technology processing, development and systems support. The functions that operate all of the ABH 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 ABH 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 Bank, 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 Bank 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 Bank in setting and achieving its strategic objectives;
- Ongoing oversight of technology and information risk management and the integration of these risks into group-wide risk management;

- Enhancing the Boards' understanding and oversight of the systems (i.e. policies, controls and procedures) that management has in place to (i) identify, manage and mitigate risks related to cyber-security, privacy and disaster recovery (ii) respond to incidents with respect thereto; and (iii) assure the integrity of critical technology assets;
- Reviewing periodic independent assurance on the effectiveness of the Bank's technology and information arrangements, including outsourced services;
- Ensuring compliance with all relevant legislation and codes of best practice as it relates to information and technology, where applicable;
- Reporting on information and technology related matters to stakeholders; and
- assessing the value delivered to the Bank through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure.

Enhancement of the Bank's IT systems and cyber-security is an ongoing process and the Bank 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.

Shareholder Structure Risk Management.

The current shareholding in ABH (see "*Description of the Issuer*" – "*Corporate Structure and Shareholding"*) is as a result of the restructuring of certain of the assets and business of RDS into the Issuer and the resolution plan implemented to recapitalise the Bank implemented in FY16 and presents a challenge for the ABH shareholders and the Bank, given that the 50% shareholding of SARB creates a potential conflict of interest with its role as a regulator of the Issuer.

For this reason, the SARB had publicly stated that it was never its intention to hold this equity stake indefinitely and in February 2020, the SARB published a request for proposal to appoint a transaction advisor relating to the future sale of its shareholding in ABH. 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.

The Issuer regards this development as an opportunity to move the ABH Group closer to its vision of becoming a listable entity in the foreseeable future and continues to work with SARB in this disposal process.

Human Capital Risk Management.

Human capital risk within the ABH Group is managed by focusing on creating an inspiring working environment, endeavouring to ensure that its employees remain engaged, with the objective of improving the ABH Group's ability to retain talent and entrench a deeper belief in its purpose.

The African Bank Exco regularly convenes a Talent Forum to identify, discuss and evaluate key, scarce and critical 'seats' that operate within the Bank. The objective is to ensure that these critical seats are occupied

by appropriate staff and that there are backup plans and succession plans in place to ensure that the functions are well executed in the absence of the current seat incumbent.

The Talent Forum is also responsible for evaluating the nature and health of the ABH Group's talent pool. At Board level, a Group Remuneration Committee (RemCom) assists the Board in fulfilling its obligation by monitoring and making recommendations regarding the Bank's remuneration policies and practices. RemCom is mandated by the Board to ensure that the remuneration philosophy and policy are aligned with the ABH Group strategy and values, as well as the interest of its stakeholders. The principles of the remuneration framework are to attract, motivate, engage and retain the talent required to achieve the ABH Group's desired business objectives and balance employee and stakeholders' interest.

The Group remuneration structure is such that incentives form a larger portion of the overall remuneration in critical roles but are strictly performance-based. A portion of the incentive is treated as a short-term incentive with amounts in excess of identified values paid as follows:

- three tranches over an 18-month period for executives; and
- two tranches over a 12-month period for Senior management.

The balance of the incentive is treated as a deferred incentive and, on condition that performance criteria is met, in respect of:

- executives and key senior management, a third vests annually and is payable at the end of the three-year period for; and
- other employees who have qualified for a deferred incentive, is payable in three annual tranches.

A long-term incentive plan, designed to embed performance behaviour throughout the business and retain key employees, is also in place. Long term incentive awards issued to executives and key senior management and are payable after three years on condition that certain identified criteria have been obtained.

Credit Risk Management.

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

Credit Risk governance and management

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 the 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 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 Bank's exposure 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 the Bank at Information Date, see "*Risk Factors – Credit Risk – The Issuer is exposed to credit risk by lending money to customers*" and "*The Issuer is exposed to credit risk in relation to financing provided to SMMEs and Corporates pursuant to strategic relationships* "and *"Credit concentration risks*". 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 and Business Risk Management – Management of Strategic Risk and Business Risk*".

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

The Bank mitigates this risk by applying the Bank's application scorecard, a set of business rules, affordability assessments and verification of items on a sample basis as a fraud mitigation tool. The Banks's credit risk assessment process adheres to the requirements set out by the NCA and the FSCA. Information as to loan size and term can be obtained from most recent Issuer financial statements and ABH 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 the Banks's maximum exposure to credit risk for advances at that point in time. The Bank has insurance cover against credit events arising from death, permanent or temporary disability and retrenchment of customers through the Cell Captive arrangement between Guardrisk and AIG (see "*Description of the Issuer – Business of the Issuer – Cell Captive Arrangement*").

<u>Credit risk assessment</u>

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

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

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

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

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

Credit monitoring

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

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

Collections and Recovery

Core to the collection function is the monitoring of the payment patterns of accounts and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe possible. The Bank uses various debit strike platforms, and each provides the Bank with different striking capabilities and options. The Bank utilises several approaches to collect instalments from customers. These include the 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.

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

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

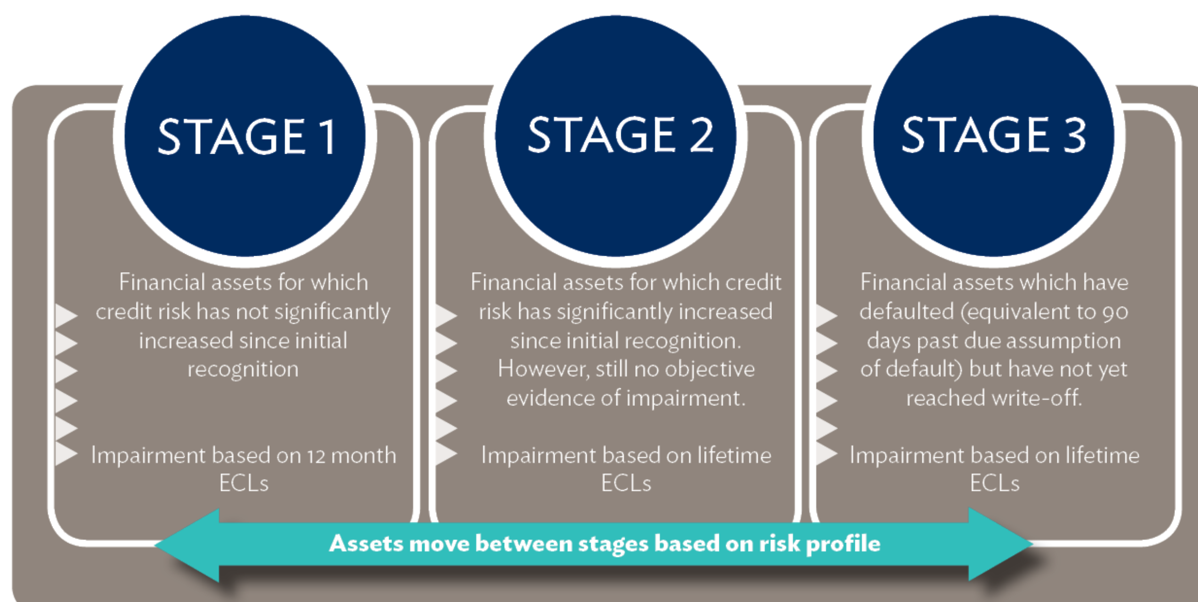
Informal indulgences are where customers request a lower debit order amount referred to as a promise to pay. Formal restructures relate to debt counselling, administration orders and court orders. From an impairment perspective, these advances are still aged through the contractual CD buckets based on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

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

Impairments

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

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



As part of the staging methodology IFRS 9 calls for the identification of a Significant Increase in Credit Risk ("**SICR**") since initial recognition of an asset. The ECL recognised as an impairment of the financial assets at initial recognition of the financial assets represent the lifetime cash shortfalls that will result from a default occurring in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months) weighted by the probability of that default occurring. If an asset is deemed to have experienced a SICR since initial recognition, the basis of impairment is automatically amended to reflect the lifetime ECLs, defined as the ECLs that result from all possible default events over the expected life of the financial instrument (stage 1 asset is moved to stage 2). The resulting increase in impairment of the asset when increasing the period for which expected credit losses are recognised from 12 months (as at initial recognition) to the remaining lifetime of the asset (following identification of a significant increase in credit risk) is substantial. These expected credit losses include potential losses as a result of future exposures from undrawn committed credit facilities, e.g., undrawn credit card facilities currently available to clients. This results in impairment loss allowances being held against exposures not included in the measurement of the outstanding balance of the corresponding financial asset.

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

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

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

Contractual delinquency	Explanation of categorisation	Time buckets	IFRS 9 stage
CD 0	Performing advances that are not past due and are within the contractual term	<=30 days	Stage 1 (no SICR)
CD 0 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 1 - 3	Advances where between one 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 8	More than three instalments have been missed and no payments have been received over the past eight months		Written off

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

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

Write off

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

The Bank 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 eight months. This period was increased from five months to eight months after the adoption of IFRS9, with effect from FY19. There is however a reasonable expectation for recovery at a portfolio level post the above historic point of write off.

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

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

The modelling impact of applying the write off criteria at a portfolio level is that no post write off recoveries are included in the determination of the loss given default ("**LGD**"), which increases the LGD. Any amounts

actually recovered post write off will be recorded as post write-off recoveries and set off against the impairment charge included in profit and loss.

Event driven management credit estimates

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

- The National Credit Amendment Act 7 of 2019, which has been enacted, but the required regulations setting out the application has not been published.
- The long-term impact that Covid-19 is predicted to have on collections and as such ECLs.

The Credit Amendment Act forms part of the stress testing scenarios, over and above the provisions already raised in this respect.

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

The NCA requires credit providers to perform a thorough assessment of the ability of prospective customers to repay any credit they may be granted. It also limits the interest rates and fees and other amounts that can be charged for credit transactions.

Further the National Credit Amendment Act, 2014 enacted various amendments to the NCA which include, but are not limited to, provisions (i) requiring the Minister of Trade and Industry, on recommendation from the NCR, to introduce affordability assessment regulations; (ii) empowering the Minister of Trade and Industry, in consultation with the Minister of Finance, to prescribe limits in respect of the cost of credit insurance that a consumer may be charged in connection with a credit agreement; (iii) prohibiting the selling or collection of outstanding debts which have prescribed; and (iv) empowering the Minister of Trade and Industry to prescribe at any time which consumer credit information held by credit bureaus should be reviewed, verified, corrected or removed and to authorise the removal of certain (and potentially vital) adverse information from a credit bureau's records.

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

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

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

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