



# Standard Bank

## STANDARD BANK GROUP LIMITED

*(Incorporated with limited liability on 25 November 1969 under Registration Number 1969/017128/06 in the Republic of South Africa)*

as **Issuer**

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### **RISK FACTOR & OTHER DISCLOSURES SCHEDULE RELATING TO THE STANDARD BANK GROUP LIMITED ZAR 50,000,000,000 DOMESTIC MEDIUM TERM NOTE PROGRAMME**

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*This is the Risk Factor & Other Disclosures Schedule relating to the Standard Bank Group Limited ZAR 50,000,000,000 Domestic Medium Term Note Programme (the "**Programme**") (the "**Risk Factor & Other Disclosures Schedule**"), and is applicable to all Notes issued under the Programme pursuant to the Programme Memorandum, as amended, updated and replaced from time to time (the "**Programme Memorandum**").*

*This Risk Factor & Other Disclosures Schedule is dated as of 24 December 2020 and contains all information pertaining to:*

- *the risk factors which outlines the factors the Issuer believes may affect its ability to fulfil its obligations under the Notes as well as the factors which are material for the purpose of assessing the market risks associated with the Notes;*
- *South African Exchange Control;*
- *South African Taxation;*
- *Subscription and Sale;*
- *Settlement, Clearing and Transfer of Notes; and*
- *the Banking Sector in South Africa.*

*Capitalised terms used in this Risk Factor & Other Disclosures Schedule are defined in the section of the Programme Memorandum headed "General Terms and Conditions" (the "**General Terms and Conditions**") or "Additional Tier 1 Terms and Conditions" (the "**Additional Tier 1 Terms and Conditions**"), and together with the General Terms and Conditions, the "**Terms and Conditions**") (as applicable), unless separately defined or clearly inappropriate from the context.*

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## RISK FACTORS

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*The Issuer believes that the factors outlined below may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.*

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

*Prospective investors should also read the detailed information set out elsewhere in the Programme Memorandum (as read together with this Risk Factor & Other Disclosures Schedule and the Issuer Disclosure Schedule relating to Standard Bank Group Limited (the "**Issuer Disclosure Schedule**", and together with the Risk Factor & Other Disclosures Schedule, the "**Disclosure Schedules**") to reach their own views prior to making any investment decision. The information given below is as at the date of this Risk Factor and Other Disclosures Schedule.*

*References in this section to the "**Group**" are to Standard Bank Group Limited ("**SBG**") and its subsidiaries and therefore include The Standard Bank of South Africa Limited and its subsidiaries.*

## INDEPENDENT REVIEW AND ADVICE

Each purchaser of and investor in the Notes is fully responsible for making its own investment decisions as to whether the Notes (i) are fully consistent with its (or if it is acquiring the Notes in a fiduciary capacity, the beneficiary's) financial needs, objectives and conditions, (ii) comply and are fully consistent with all investment policies, guidelines and restrictions applicable to it (or its beneficiary) and (iii) are a fit, proper and suitable investment for it (or its beneficiary). Purchasers of and investors in Notes are deemed to have sufficient knowledge, experience and professional advice to make their own investment decisions, including, without limitation, their own legal, financial, tax, accounting, credit, regulatory and other business evaluation of the risks and merits of or associated with investments in the Notes. Purchasers of and investors in Notes should ensure that they fully understand the risks of or associated with investments of this nature which are intended to be sold only to sophisticated investors having such knowledge, appreciation and understanding.

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

### **Risks relating to the Issuer**

*The investments, business, profitability and results of operations of the Group may be adversely affected by difficult conditions in the global, South African and, with respect to SBG, sub-Saharan financial markets*

*The full extent to which the recent coronavirus (COVID-19) pandemic impacts the Group'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 SBG generates a majority of its revenues, but also in many of the other countries in which SBG operates. As a result, the demand for the Group's products and services has been impacted and may, in the future, be significantly affected by the ongoing impact of the COVID-19 pandemic.

On 31 March 2020, SBG published an announcement (the "**31 March 2020 Announcement**") on the Johannesburg Stock Exchange ("JSE") in which SBG announced that, due to the high degree of uncertainty regarding the impact of COVID-19 on SBG's financial performance in 2020, it was withdrawing the outlook and guidance which had previously been given to shareholders on 5 March 2020 in SBG's announcement relating to its financial information for the year ended 31 December 2020. Furthermore, SBG published an announcement on the JSE on 22 April 2020 (the "**22 April 2020 Announcement**") in which SBG provided an update on the Group's operational performance for the three months ended 31 March 2020. In the 22 April 2020 Announcement, SBG noted that while earnings attributable to ordinary shareholders were 27 per cent. lower than in the three month period ended 31 March 2019, the Group remained well capitalised and liquid.

The COVID-19 pandemic could influence the recognition of credit losses in the Group's loan portfolios and result in increases in the Group's credit impairment charges, particularly as businesses were closed during the higher levels of lockdown and as more customers are expected to draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting listed entities, the Group may be required to recognise other-than-temporary impairments in future periods on the securities it holds as well as reductions in other comprehensive income. In addition, in the 22 April 2020 Announcement, SBG noted that credit impairment charges for the three month period ended 31 March 2020 were significantly higher than in the corresponding three month period in 2019. This increase was driven by a deterioration in both the portfolio performance and the forward-looking assumptions used in the modelling of expected credit losses. IFRS 9 requires the Group to consider forward-looking information in the calculation of expected credit losses. Accordingly, the Group has estimated an increase in economic stress caused by the crisis and, where appropriate, incorporated that in the calculation of the Group's expected credit losses. As of 31 March 2020, the COVID-19 related stress on individuals and businesses had, to a large extent, not yet emerged and the provisions raised were based on the Group's estimate at the time.

The Group's business operations have been disrupted as a significant portion of its workforce is unable to work effectively, including because of illness, quarantine, government actions, working remotely or other restrictions in connection with the COVID-19 pandemic.

In response to the COVID-19 pandemic, the Group has extended extraordinary relief measures to certain small enterprise, individual and student customers in its Personal and Business Banking division, including repayment holidays for defined periods, initially for up to three months.

The Prudential Authority ("PA") is supportive of COVID-19 related relief measures being extended by banks in South Africa. It has issued a number of directives to provide temporary relief to banks, branches of foreign institutions and controlling companies, including Directive D3/2020 dealing with matters related to the treatment of restructured credit exposures due to the COVID-19 pandemic (which must be read in conjunction with Directive D7/2015 on Restructured Exposures). Directive D3/2020 permits banks to classify certain qualifying loans that are being restructured due to COVID-19 related factors as "Covid-19 restructured loans". The classification impacts the risk weight assigned to the loan and thereby the calculations used by a bank in determining the relevant minimum required amount of capital and reserve funds to be held against the bank's credit risk exposure. It effectively means that for the duration of the crisis, loans restructured as a result of the impact of COVID-19 will not attract a higher capital charge. This amendment covers loans to households, small and medium-sized businesses and corporates, and for specialised lending.

On 1 June 2020, SBG published an announcement on the JSE in which it provided a voluntary trading update and trading statement for the six-month period ending 20 June 2020 (the "**1 June 2020 Announcement**"). In the 1 June 2020 Announcement, the shareholders were advised that the outlook for the twelve-month period ending 31 December 2020 ("**FY20**") continued to deteriorate. It further indicated that the toll of the lockdowns was starting to emerge. By 28 May, the Personal and Business Banking division ("**PBB**") had provided ZAR92 billion in relief to individuals, SMMEs and commercial clients in SA across 285 000 accounts and ZAR11 billion to predominantly commercial PBB clients in Africa Regions across 14 000 accounts. The Corporate & Investment Banking division ("**CIB**") had concluded restructures for eligible clients with risk exposures amounting to approximately R30 billion. At such time, the CIB requests had largely originated in South Africa. As regards the Issuer, the lockdowns negatively impacted sales, disbursements and transaction activity levels. In South Africa, in April deeds offices and dealerships were closed which halted mortgage disbursements and resulted in a more than 70% decline in disbursements compared to March. In addition, ATM and branch volumes were down 38% and 61% respectively. While there was an improvement in activity levels during the course of May, at the time of the 1 June 2020 Announcement, they remained below those seen prior to the lockdown. SBG indicated that in line with the PA's guidance on dividends, the group was not planning to declare an FY20 interim ordinary dividend. Shareholders were advised in the 1 June 2020 Announcement that SBG's headline earnings per share ("**HEPS**") and earnings per share ("**EPS**") for the six-month period ending 30 June 2020 were expected to be more than 20% lower than the reported HEPS and EPS for the comparable period (1H19 HEPS: 837.4 cents, 1H19 EPS: 827.0 cents).

SBG published an announcement on the JSE on 29 July 2020 (the "**29 July 2020 Announcement**") in which SBG provided an additional operational update and trading statement update for the six-month period ended 30 June 2020. In the 29 July 2020 Announcement, SBG indicated that despite considerable effort, the pandemic appeared to be gaining momentum in certain of the markets in which the group operates on the continent, particularly in South Africa. In June 2020, SBG continued to receive additional client relief requests, however the rate slowed month-on-month. Total relief

provided by SBG to clients increased from May to June. In addition, the Group continued to receive applications for funding under the South Africa Covid-19 SME Loan Guarantee Scheme. The 29 July 2020 Announcement makes reference to the 1 June 2020 Announcement, noting that as indicated therein disbursements and transaction activity levels were negatively impacted by the lockdowns, in particular in April 2020. The 29 July 2020 Announcement noted that while activity levels did improve in May and June as lockdowns were eased, in most instances, activity remained below pre-lockdown levels. SBG indicated that as 30 June 2020, SBG remained well capitalised and liquid. Further, shareholders were advised in the 29 July 2020 Announcement that SBG's HEPS for 1H20 is expected to be between 30% and 50% lower than the reported HEPS for the six-month period ended 30 June 2019 ("**Comparative Period**"), translating into a decrease from the comparative period's HEPS of 837.4 cents per share to a range of between 586.2 and 418.7 cents per share.

On 20 August 2020, SBG published an announcement on the JSE (the "**20 August 2020 Announcement**") in which SBG announced its results for the six months ended 30 June 2020. In the 20 August 2020 Announcement, SBG indicated that its banking operations' earnings were supported by strong balance sheet growth, robust trading revenues and well contained costs. Positive jaws of 100 bps supported pre-provision operating profit, which grew 4% period on period to ZAR24.3 billion. Credit impairment charges increased to ZAR11.3 billion, 2.7 times those reported in the prior period (1H19) and reflective of the tough environment and outlook. Consequently, banking operations reported headline earnings of ZAR7.7 billion, down 40% on 1H19, and a return on equity (ROE) of 9.5%. Group headline earnings were ZAR7.5 billion, a decline of 44% on 1H19, and ROE was 8.5%.

Further, the 20 August 2020 Announcement indicated that SBG's capital position remained robust, with a common equity tier 1 capital adequacy ("**CET1**") ratio as at 30 June 2020 of 12.6%. Profit attributable to ordinary shareholders declined 71% to R3.8 billion. The difference between headline earnings and profit attributable can be ascribed to a R1.4 billion post-tax gain on the sale of the 20% stake in Industrial and Commercial Bank of China (Argentina) S.A. and its affiliates ("**ICBCA**"), the associated ZAR3.4 billion negative impact of the foreign currency translation reserve (FCTR) release on sale and ZAR1.9 billion related to the impairment of certain IT intangible assets. In line with the South African Reserve Bank's guidance, the board of SBG did not declare an interim dividend. Any investment decisions by prospective investors should be based on the full announcement released on SENS; or available at <https://senspdf.jse.co.za/documents/2020/jse/isse/SBK/SBG1H20.pdf>; or <http://www.standardbank.com/reporting>. The *pro forma* financial information and 1H20 results, including comparatives for 1H19 where applicable, and forward-looking information has not been audited or independently reviewed by SBG's external auditors.

SBG published an announcement on the JSE on 20 October 2020 (the "**20 October 2020 Announcement**") in which SBG provided an update on the Group's operational performance for the nine months ended 30 September 2020. In the 20 October 2020 Announcement, SBG stated Group profit attributable to ordinary shareholders for the nine months to 30 September 2020 was 52% lower than the comparative period, and Group headline earnings was 39% lower than the comparative period. The 20 October 2020 Announcement further stated that the Group remains well capitalised and liquid. The timing and shape of recovery remains subject to disruptions caused by new waves of infection, both in Africa and in key trading partners. In addition, country-specific risks in Mozambique, Nigeria, South Africa, Zambia and Zimbabwe remain elevated. Credit trends are expected to be in line with expectations. While initial indications were that collections had improved in 3Q20 relative to 2Q20, retrenchment claims also increased. The latter, combined with broader customer stress, resulted in an increase in non-performing loans and additional impairment charges as balances transferred from stage 1 or 2 to stage 3. The 20 October 2020 Announcement further

indicated that there remains a risk that the environment could deteriorate, and that portfolio performance could be worse than currently expected; for example, due to new waves of infection, subsequent lockdowns and/or further job losses. Looking forward, the view is that the Covid-19 pandemic, together with global economic weakness, elevated uncertainty and depressed sentiment, are expected to negatively impact employment, incomes and equality globally. Emerging Markets, including sub-Saharan Africa, face high external debt and a dependency on sectors most exposed to the pandemic, meaning they risk being disproportionately impacted, particularly in terms of an increase in poverty and inequality.

(See further <http://research.mcgregorbfa.com/NewLibraryDocuments/Announcement/76836837-221D-44E2-901C-13EAF4BD086E.pdf>).

On 30 November 2020, SBG published an announcement on the JSE in which it provided a voluntary trading update and trading statement for the twelve-month period ending 31 December 2020 (the "**30 November 2020 Announcement**"). In the 30 November 2020 Announcement, the shareholders were advised that the trends highlighted in the 20 October 2020 Announcement continued. The Group's credit loss ratio for the ten months to 31 October 2020 was lower than the 169 basis points reported at 30 June 2020. The outlook for credit impairment charges beyond FY20 remained very uncertain. The Group's capital and liquidity levels remained well above regulatory minimums and internal risk appetite thresholds. This positions the Group well to withstand any additional turbulence and provides the financial resources to continue to support its clients. The Group's common equity tier 1 ratio (including unappropriated profits) was 13.2% as at 30 September 2020 (30 June 2020: 12.6%).

Shareholders were advised that SBG's headline earnings per share (HEPS) for the twelve-month period ending 31 December 2020 is expected to be more than 20% lower than the reported HEPS for the comparable period. There remains considerable uncertainty and forecast risk.

In conclusion, the full extent to which the COVID-19 pandemic impacts the Group's business, financial condition and results of operations, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the COVID-19 pandemic and the impact of actions taken by regulators, governmental authorities and other third parties in response to the COVID-19 pandemic.

*A material deterioration in global economic conditions is likely to have a negative impact on macroeconomic conditions in South Africa and, with respect to SBG, other countries in sub-Saharan Africa in which SBG operates, which may adversely affect the Group's operations and its financial condition*

The Group's business has significant holdings in South Africa, in particular through SBSA and its subsidiaries, with the majority of SBG's revenues derived from operations in South Africa. Therefore, SBG's businesses and results of operations are primarily affected by economic and political conditions in South Africa and, as a consequence of their impact on the South African economy, global economic conditions.

In addition, the Group is an Africa focused universal financial services group with operations in twenty countries in sub-Saharan Africa outside of South Africa (which it refers to as "**Africa Regions**") and satellite offices in five key financial centres and two offshore hubs. As a result, SBG's performance is also affected by its operations in sub-Saharan Africa. Africa Regions contributed 31 per cent. to SBG's banking headline earnings for the year ended 31 December 2019, and total assets for Africa Regions represented 15.4 per cent. of SBG's total assets at 31 December 2019. Economic

and political conditions in the Africa Regions in which it operates therefore also have an impact on SBG's business and results.

Negative changes in global economic conditions may result in lower customer demand, including lower demand for borrowing from creditworthy customers, and/or a reduction in the value of related collateral and/or an increase of the Group's default rates, delinquencies, write-offs, and impairment charges, which in turn could adversely affect the Group's performance and prospects. Deteriorating economic conditions could also impact the ability of the Group to raise funding from external investors. The South African economy is exposed to the global economy through the current and capital accounts of the balance of payments. South Africa's exports are impacted by economic activity of some of the world's largest economies including China, the U.S. and Europe. Commodity prices and the Rand exchange rate also have a material impact on South African exports. The South African economy is also reliant on foreign capital flows into the country and has been a recipient of foreign capital through the domestic bond and equity markets over the last few years.

The COVID-19 pandemic has had a material impact on the global economy, as well as on the economies of South Africa and the Africa Regions. The COVID-19 pandemic has already had a significant adverse impact on global supply chains, tourism revenues, commodity prices, capital flows and demand, and financial markets.

Economic observers such as the International Monetary Fund have predicted that the COVID-19 pandemic will result in a global recession in 2020 which is likely to be more significant than the one experienced during the financial crisis of 2009. It is also likely that more countries will experience a recession than in the 2009 global financial crisis. The extent of a global recession will likely be determined by the speed with which the COVID-19 pandemic can be arrested. Monetary and fiscal policy is likely to be eased, internationally, in an effort to stimulate the global economy; however the scope for monetary policy easing is relatively constrained as most developed economies operate at very low (or even negative) interest rate, while the effectiveness of fiscal policy easing is also relatively limited, as high and rising indebtedness internationally could impair economic growth.

The effects of a global recession may impact a significant number of the Group's customers, and lead to increased unemployment and a decrease in disposable income and consumer spending. Such conditions could have a material adverse effect on the Group's business, financial condition and results of operations.

*A deterioration in the South African economy may adversely affect the Group's business and results of operations in a manner that may be difficult to predict*

The Group's business and results of operations may be impacted by a number of South African macroeconomic conditions, including subdued economic growth, rising unemployment, increases in inflation and/or interest rates and adverse foreign exchange rate movements.

The South African economy entered into a recession during the final two fiscal quarters of 2019, when gross domestic product ("GDP") contracted by 1.4 per cent. in the fourth fiscal quarter of 2019 (relative to the third fiscal quarter of 2019, which itself saw a contraction of GDP by 0.8 per cent. relative to the second fiscal quarter of 2019). This was largely attributable to continued Eskom electricity supply shortages. GDP growth was relatively subdued in 2019 and averaged 0.2 per cent., compared to 0.8 per cent. in 2018, and has grown at a slower rate than population growth for the past five consecutive years. Prior to the outbreak of the COVID-19 pandemic in January 2020, the South African economy had shown signs of weakness and had been in a period of declining economic

activity since December 2013. The South African Reserve Bank ("**SARB**") expects GDP to contract by 0.2 per cent. in 2020, although there remain significant and continuing recessionary risks amidst the ongoing COVID-19 pandemic and its impact on global financial markets, especially with forecasts of global (and, in particular, Chinese) economic growth being revised downward.

The South African banking sector is widely regarded as one of the country's key pillars of economic strength. The banking sector is, however, highly exposed to South Africa's deteriorating macroeconomic conditions and will be impacted by the COVID-19 pandemic. With the SARB's forecast of a contraction of GDP in 2020, domestic macroeconomic conditions are likely to be less supportive of the domestic banking sector. Household disposable incomes are decreasing as a result of existing subdued economic growth and elevated levels of unemployment. Interest rate cuts as part of monetary policy easing may also affect banks' profitability.

The Rand has depreciated significantly since 2018 on account of the increasing strength of the U.S. dollar, investor concerns regarding South African economic prospects and global risk aversion on account of the COVID-19 pandemic. Further, the downgrade of South Africa's sovereign credit rating by each of Moody's Investor Services Cyprus Ltd., Fitch Ratings Limited and S&P Global Ratings to sub-investment grade in March and April 2020 saw South Africa excluded from the World Government Bond Index ("**WGBI**"), triggering investors who were mandated to invest in investment grade countries to sell South African assets. South Africa's 10-year sovereign bond yield reached 11.82 per cent. in March 2020 (an increase from 9 per cent. in January 2020), as a result of forced selling and heightened investor concerns about South Africa's fiscal outlook. The JSE All Share Index decreased by 33 per cent. since January 2020, with non-residents having sold R44.96 billion of South African bonds and R30.04 billion of equities since the beginning of 2020. The capital outflows expected in response to the exclusion of South Africa from the WGBI will likely prove disruptive against the backdrop of uncertain global financial markets.

Investors' expectations for growth and fiscal policy interventions will likely be a key driver of the medium-term Rand trajectory; the Rand will be vulnerable if the fiscal trajectory is not sustainable when the global economy rebounds.

No assurance can be given that the Group would be able to sustain its current performance levels if the current South African macroeconomic conditions were to persist or materially worsen from levels at the date of this Risk Factor & Other Disclosures Schedule.

*A deterioration in the economies of the Africa Regions may adversely affect SBG's business and results of operations in a manner that may be difficult to predict*

The COVID-19 pandemic has had, and is likely to continue to have, a material impact on the economies of the Africa Regions.

The economies of the Africa Regions are expected to be impacted by the deterioration in the global economy and volatility in global financial markets, as well as by economic disruption as a result of the spread of the COVID-19 pandemic within the countries of the Africa Regions. The impact of the latter is particularly difficult to predict, in part due to the uncertainty about how extensive the spread of the COVID-19 pandemic will be in Africa. Additionally, it is uncertain and impossible to predict how long it will take to arrest the spread of the COVID-19 pandemic.

Monetary and fiscal policy are likely to be eased across the Africa Regions in response to the COVID-19 pandemic. Several central banks in the Africa Regions have cut policy rates, based on an

estimation of how the disruption in developed economies would impact their respective economies. It is worth noting that such estimates may prove inaccurate and that while economic policy responses in developed economies have encompassed both monetary and fiscal policy easing, the scope for fiscal policy easing in the Africa Regions is relatively limited.

However, the COVID-19 pandemic has revealed underlying fiscal fragility across the continent. Governments tend to have little room to reduce expenditure as most planned expenditure is recurrent. Moreover, many governments' ability to service debt is constrained, along with their ability to attract additional capital, given the shrinking global appetite for riskier financial assets. This is likely to have a pronounced effect on governments that carry a significant net external debt burden. Subject to any debt relief initiatives, public debt levels in most of the Africa Regions are likely to stay higher for longer since it is unlikely that debt consolidation will be easy to achieve given weak domestic growth conditions combined with a higher levels of currency depreciation.

Balance of payments pressures have intensified in most countries of the Africa Regions, with a deterioration in foreign exchange reserves. Commodity prices, specifically energy and metals prices (with an exception of gold) have fallen sharply, consequently depressing exports of these commodities. Oil prices have fallen significantly below fiscal and external breakeven points. The fall in oil prices will create fiscal and external pressures, exposing long-standing structural deficiencies in these economies. However, the central banks of both Nigeria and Angola have indicated a willingness to allow some currency flexibility.

Additionally, in the wake of the devastating impact of tropical cyclones Kenneth and Idai, the risk from climate change is pertinent. This risk tends to be more pronounced in agrarian based economies, such as Malawi. Extreme weather events affect agricultural production, food security, domestic price levels, and public and private sector expenditure patterns. This risk is compounded by the fact that it is difficult to predict when and where such extreme weather events will occur.

It is likely that elections scheduled to occur this year in a few countries across the Africa Regions may be postponed due to the COVID-19 pandemic. This could lead to an increase in political tensions, particularly if the opposition views a postponement as a ploy for the government to retain power. Ethiopia has postponed parliamentary and presidential elections scheduled for August 2020 and confirmed that a new date for elections will be set once the COVID-19 pandemic is under control. Other countries set to hold elections in 2020 include Ghana, Côte d'Ivoire, Malawi and Tanzania. Côte d'Ivoire's and Ghana's elections could be regarded as presenting significant uncertainty. In Malawi, political tensions have not eased since the presidential election in May 2019. Earlier this year, Malawi's Constitutional Court overturned the results of the presidential election of May 2019 and ordered that fresh elections be held. While presidential elections are set for July 2020, it is likely that the election will be postponed.

A deterioration in the economies of the Africa Regions may have an adverse effect on the business, financial condition and results of operations of SBG and, by extension, the Group.

*Changes in the credit quality of counterparties could impact the recoverability and value of assets, which may have an adverse impact on the Group's profitability*

The Group's lending and trading businesses are subject to inherent risks relating to the credit quality of its counterparties, which may impact the recoverability of loans and advances due from these counterparties. Changes in the credit quality of the Group's lending and trading counterparties or

arising from systemic risk in the financial sector could reduce the value of the Issuer's assets and require increased provisions for bad and doubtful debts.

In addition, the Group is exposed to credit concentration risk, which is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a market or segment of a market, a product, a financial instrument or type of security, a country or geography, or a maturity. The Group's credit portfolio also contains concentration risk of exposure to respective governments in the regions in which it operates, through prudential requirements and direct lending. The Group manages this exposure within a clearly defined risk appetite framework and stress tests portfolios against weaknesses and sovereign downgrades.

SBG's credit impairment charges increased by 23 per cent. to R8.0 billion for the year ended 31 December 2019. The total credit loss ratio also increased to 0.68 per cent. (from 0.56 per cent. for the year ended 31 December 2018) for the year ended 31 December 2019. Credit impairment charges in Africa Regions increased to R2.2 billion for the year ended 31 December 2019 from R0.9 billion for the year ended 31 December 2018, impacted by the challenging economic climate in Africa Regions. Credit impairments charges across SBG increased due to advances growth across all portfolios, particularly strong origination within the personal unsecured and corporate lending portfolios in South Africa and the Africa Regions, and defaults within the vehicle and asset finance portfolio as a result of the challenging economic climate in South Africa.

As at 31 December 2019, SBSA's net loans and advances represented 84 per cent. of SBG's gross loans and advances of R1,216 billion. In respect of SBSA, non-performing loans were 3.6 per cent. of average loans and advances, which remains unchanged from the 3.6 per cent. as at 31 December 2018. A "non-performing loan" is a loan in which the borrower is in default as a consequence of the borrower not having made its scheduled payments for a specified period of time.

SBSA operates through its divisions, Personal & Business Banking SA and Corporate & Investment Banking SA. At a divisional level, non-performing loans decreased to 5.2 per cent. of the Personal & Business Banking SA division's gross loans and advances at 31 December 2019 (compared to 4.9 per cent. at 31 December 2018). The Corporate & Investment Banking SA division's non-performing loans represented 1.5 per cent. of its gross loans and advances (compared to 1.9 per cent. at 31 December 2018).

SBSA's credit impairment charges increased by 3.0 per cent. to R5.7 billion (from R5.6 billion for the year ended 31 December 2018) and the total credit loss ratio slightly increased to 0.57 per cent. from 0.56 per cent. for the year ended 31 December 2019.

The Personal and Business Banking SA division reported a 11 per cent. increase in impairment charges year-on-year. The increase in impairment charges was due to higher stage 1 and 2 charges due to growth in advances in the personal unsecured and corporate lending portfolios, as well as higher stage 3 provisions within Vehicle and Asset Finance due to the challenging economic climate. Impairment charges were also increased in the mortgage lending portfolio due largely to the continued delays to legal foreclosures in South Africa.

The Corporate and Investment Banking SA division reported an increase in impairment charges of 5 per cent. for the year ended 31 December 2019. Higher impairment charges were raised on retail consumer and Power and Infrastructure sector clients in the Corporate and Investment Banking SA division, whose performance was impacted by a low growth domestic economic environment.

SBSA's credit portfolio contains a concentration of exposure to the South African government (the "**Government**") through prudential requirements and direct lending. SBSA manages this exposure within a clearly defined risk appetite framework and also stress tests the portfolio against weaknesses and sovereign downgrades.

SBSA continues to hold the largest market share (33.76 per cent.) in the South African residential mortgage advances to the household sector market (source: SARB BA900 regulatory return, January 2020), and these exposures represent a credit concentration in SBSA's portfolio. SBSA manages this exposure within a clearly defined risk appetite framework, which includes portfolio limits. SBSA also regularly stress tests the portfolio against various weaknesses in the economy, such as a sovereign ratings downgrade, which could negatively affect consumer creditworthiness and the repayment of home loans.

Many factors affect the ability of the Group'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 outside of the Issuer's control. SBG conducts annual credit risk type scenario and sensitivity 'stress testing on its portfolios to assess the impact on its risk profiles and to inform changes to forward-looking risk appetite and strategy.

The Group continues to apply appropriate and responsible lending criteria and to manage credit risk by maintaining a culture of responsible lending and a robust risk policy and control framework, in line with anticipated economic conditions and forward-looking risk appetite. Despite this, if macroeconomic conditions in South Africa continue to remain uncertain and demand for credit remains lacklustre, the level of the Issuer's non-performing loans and credit impairments may increase. This, in turn, could have an adverse effect on the Issuer's financial condition or results of operations.

In this regard, the potential financial impact on the quality of the Group's credit portfolio and its associated earnings, as a result of the current and ongoing COVID-19 pandemic, must be considered. In March 2020, the Group extended extraordinary relief measures to certain small enterprise, individual and student customers in its Personal and Business Banking division, including repayment holidays for defined periods, initially for up to three months. As at the end of the first fiscal quarter of 2020, the full economic impact of the COVID-19 pandemic and the resultant business interruption and adverse effects on global activity, are yet to be fully understood. While the Group remains well capitalised and is supported in South Africa by targeted regulatory capital relief measures, investors should note that the challenging economic climate may impact its performance in the 2020 financial year.

*South African political uncertainty may impact the South African economy, which in turn could have a negative effect upon the Group's operations and its financial condition, in a manner that may be difficult to predict*

Historically, the South African political environment has been characterised by a high level of uncertainty and concerns about the strength and independence of the country's institutions.

In 2020, the South African political outlook will likely be dominated by economic concerns and the need for the Government to undertake structural macroeconomic reforms that are required to stabilise the fiscal outlook in South Africa and to remedy chronic operational and financial weaknesses across several core state-owned entities ("**SOEs**"), particularly Eskom. In January 2020, Eskom CEO André

de Ruyter announced that planned electricity cuts would continue for the next 18-24 months, as Eskom embarked on deferred maintenance programmes. Despite being disruptive to economic activity, particularly on the manufacturing sector, Eskom's maintenance programmes are necessary for the future stability of the power supply.

These pressures will likely be compounded by the extraordinary effects of the COVID-19 pandemic, which is expected to significantly restrict global and South Africa GDP growth. Protracted economic weaknesses and the unwillingness of the Government to push for bold action to restructure chronically underperforming SOEs may weaken President Ramaphosa's public popularity, and support the development of more radical and populist alternatives to the current administration in the next local government elections (scheduled to be held in 2021), the next ANC national elections (scheduled to be held in 2022), and the next national and provincial elections (scheduled to be held in 2024).

In addition, although President Ramaphosa has strengthened his support base within the African National Congress ("ANC") over the past year, there remain substantial divisions within the ANC which threaten to compromise his economic and structural reform plans. Several internal ANC elections are scheduled to be held in 2020, the outcomes of which could either strengthen President Ramaphosa's position or offer an opportunity to his political opponents within the ANC to regroup. The performance of various Anti-Corruption Task Team institutions, in particular the National Prosecuting Authority ("NPA"), will continue to be of importance, particularly in light of the Government's commitment to hold accountable those responsible for corruption and 'state capture' during the tenure of former President Zuma.

Political instability, including the inability of the Government to implement the necessary structural reforms, may have an adverse impact on the South African economy and could have an adverse effect on the Group, its business, financial condition and results of operations.

***Noteholders recourse to assets and/or cash flows of SBG may be subordinated to the rights of investors and funders to the assets and/or cash flows of the subsidiaries***

*SBG is a holding company and its ability to make payments in respect of the Notes issued by it under the Programme depends on the results of its operating subsidiaries and its ability to receive distributions and repayments from such subsidiaries*

SBG is the ultimate holding company for the Group's interests and conducts its business through operating subsidiaries. SBG's ability to meet its financial obligations, including payments under Notes issued by it, depends on receipt of interest and principal payments on loans made by it to its operating subsidiaries (including, for example, any loans which may be made with the issue proceeds of Notes issued by SBG) and/or distributions of earnings and capital from its operating subsidiaries in the form of dividends, distributions or other advances and payments.

Certain of SBG's subsidiaries have incurred or may in the future incur indebtedness pursuant to loan agreements, indentures or other financial instruments that rank senior to SBG's loans to its subsidiaries. Furthermore, such subsidiaries are, or may in the future be, subject to restrictions contained in loan agreements or indentures which prohibit or limit their ability to transfer funds to SBG and/or require that any existing or new indebtedness of such subsidiaries to SBG be subordinated to the indebtedness under such loan agreements or indentures. SBG's subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under Notes issued by SBG (or SBSA) or to make any funds available therefore,

whether in the form of dividends or otherwise. Any right that SBG may have to receive assets of any such subsidiary upon its liquidation, and the consequent right of the holders of Notes to benefit from the distribution of proceeds from those assets, will be effectively subordinated to the claims of creditors of such subsidiaries, including tax authorities, employees, trade creditors and lenders.

***The investments, business, profitability and results of operations of the Issuer may be adversely affected by risks relating to the Group's internal processes and operations***

*Fraudulent activity may result in financial losses which may have an adverse effect of the operations of the Group*

The Group faces the risk of regulatory sanction, reputational damage and financial losses due to fraud, crime and misconduct. Internal and external fraud remain a top risk for the Group and the Group continues to invest in maintaining an appropriate control environment as the forms of fraud evolve in sophistication and complexity. Card fraud, defined under external fraud, remains the highest contributor to fraud losses suffered by the Group. This is mainly driven by the global trend of increased volumes of payments made on e-commerce channels, in-app purchases and electronic subscriptions, where cards are the preferred method of payment.

In addition, the Group continues to monitor for market abuse, market manipulation, rogue trading and trends of syndicate or collusive behavior where staff may be complicit during economic downturns, as these activities may result in financial losses.

As the Group grows its digital offerings and footprint, the risk of impersonation and breaches of logical access management, which could result in regulatory sanction, reputational damage or financial loss, is heightened.

Should the Group fall victim to fraudulent activities or be unable to detect or mitigate fraudulent activities, this may have an adverse effect on the business, financial condition and results of operations of the Group.

*Cyber-crime may result in losses which negatively impact the Group's business, financial condition and/or results of operations*

The Group operations are largely dependent on their own information technology systems and those of its third-party service providers. The Group could be negatively impacted by cyber-attacks on any of these.

The Group is cognisant of the mounting risk posed by cyber-crime. Financial services remain the most targeted economic sector from a cyber-threat perspective. 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, sabotage and/or damage of computer systems, reputational damage and may lead to regulatory penalties or financial losses.

The Group's businesses are subject to their ability to quickly adapt to disruptions while maintaining continuous business operations.

Any failure in the continuity of the Group's operations and services could have a materially adverse effect on the Group's business, financial condition and/or results of operations.

*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 the Issuer to additional liability*

The Issuer is required to comply with applicable anti-money laundering, counter terrorist financing and bribery and corruption reporting laws in South Africa as more fully described in the Issuer Disclosure Schedule, section entitled "*Description of Standard Bank Group Limited – Regulation – Anti-money laundering regulatory requirements*" on page 50. Additionally, regulators across Africa require financial institutions to adopt the risk-based approach to managing risks associated with money laundering and the financing of terrorism, as espoused by the Financial Action Task Force Recommendations. Regulators expect financial institutions to conduct due diligence processes, technologically driven transaction surveillance and reporting mechanisms in all countries in which the Group operates. 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 them for money laundering or illegal purposes.

*A failure or interruption in or breach of the Group's information technology systems could have an adverse effect on the Issuer's business, financial condition and/or results of operations*

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

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

The Group has a high dependency on its technology systems and operations infrastructure to conduct its business. The Group regards these systems as critical to improving productivity and maintaining the Group's competitive edge. SBG has introduced fully digital solutions for transactional banking (internet banking, mobile phone banking via text message, and smartphone banking via the app) in most countries in which it operates, and SBG actively encourages customers to switch from physical to digital channels.

Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment custody and/or other important systems. If the Group's information systems fail, even for a short period of time, it could be unable to serve some or all customers' needs on a timely basis which could result in a loss of business.

*The Group may suffer reputational or financial damage as a result of misconduct by third- and fourth-parties*

The Group outsources certain services to third-party service providers. The Group faces a risk of loss or disruption to its services due to ineffective management of third- and fourth-party relationships by the Group, and misconduct, such as participation in financial crimes, by third- and fourth-parties.

### ***Competition and Market Risk***

*An evolving competitive landscape may have an adverse effect on the Group's financial condition and results of operations*

The Group is subject to significant competition from other major banks operating in its markets, including competitors such as international banks that may have greater financial and other resources, particularly in the corporate and investment banking market. Many of these banks compete for substantially the same customers as the Issuer and/or other members of the Group. The Group also faces competition from other non-bank entities that increasingly provide similar services to those offered by banks, including entities such as retailers, mobile telephone companies and other technology companies, including “bigtech”, and entities in the shadow banking industry. The shadow banking industry is large and inconsistently regulated in some of the Group’s markets, which creates additional competition and may in future cause heightened systemic risk. Increased competition from non-bank entities in the money markets and capital markets could impact the Issuer’s ability to attract funding. Competition may increase in some, or all, of the Issuer’s principal markets and may have an adverse effect on its financial condition and results of operations.

*Adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates and correlations, could impact the market value of the Group's financial instruments*

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, which is caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables. The Group’s key market risks are trading book market risk, interest rate risk in the banking book, equity risk in the banking book, foreign currency risk, own equity-linked transactions and post-employment obligation risk. Should the Group be unable to manage its market risk this could have a negative impact upon the value of its securities. At the Group level for the year ended 31 December 2019, Market risk consumed R1.3 billion, or 1.1 per cent., of Group Economic Capital. Interest rate risk in the banking book for the year ended 31 December 2019 consumed R4.8 billion, or 4.0 per cent. of Group Economic Capital.

Trading book market risk is represented by financial instruments, including commodities, held in various entities in the Group’s trading books arising out of normal global market's trading activity. Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held in the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market

price of the equity or instrument itself. Equity risk for the year ended 31 December 2019 consumed R6.6 billion, or 5.6 per cent. of Group Economic Capital.

The Group's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect on its net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

The Issuer has exposure to changes in SBG's share price arising from the equity-linked remuneration contractual commitments and post-employment obligation risk through the requirement to contribute as an employer to an underfunded defined benefit plan. Total expenses recognised in SBSA staff costs for own equity-linked transactions for the year ended 31 December 2019 was R1.4 billion and the total liability recognised in other liabilities for own equity-linked transactions at as 31 December 2019, was R1.8 billion. The amount recognised as an asset in SBG's Statement of Financial Position as at 31 December 2019 for pension and other post-employment benefits was R1.1 billion. The amount of pension and other post-employment benefits recognised as a liability in SBG's Statement of Financial Position as at 31 December 2019 was R1.2 billion.

In addition, SBG, through its 53.62 per cent. shareholding in Liberty Holdings Limited ("**Liberty**"), is exposed to insurance risk. The Group's share of Liberty's headline earnings for the year ended 31 December 2019 was R1.9 billion, which equates to 6.6 per cent. of SBG's total headline earnings. The Group's Liberty business unit provides life insurance products and services through Liberty Group Limited, a subsidiary of Liberty. Market risk within the Group's life insurance business is split into three categories:

- market risks to which Liberty wishes to maintain exposure on a long-term strategic basis;
- market risks to which Liberty does not wish to maintain exposure on a long-term strategic basis as they are not expected to provide an adequate return on economic capital over time; and
- market risks to which Liberty does not wish to maintain exposure but where Liberty is unable to economically mitigate these risks through hedging.

*Uncertainty in the timing and volume of future cash outflows resulting from obligations under insurance contracts could adversely impact SBG's liquidity and business operations, which could further impact SBG's operations and its financial condition, in a manner that may be difficult to predict*

Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity, policyholder behaviour or expense experience in the case of life products, and claims incidence, claim severity or expense experience in the case of life insurance products. Insurance risk applies to the life insurance operations housed in Liberty and non-life insurance operations housed in Standard Insurance Ltd ("**SIL**"). The Group's share of Liberty's headline earnings for the year ended 31 December 2019 was R1.9 billion, which equates to 6.6 per cent. of SBG's total headline earnings, while the non-life insurance operations housed in SIL are not considered to contribute a material risk in the context of the Group.

As a result of COVID-19 pandemic, the following impacts may be observed on certain risk factors such as: a drop in new business as potential customers face financial challenges and as hard selling

efforts are curtailed, an increase in cancellations as some clients face financial challenges due to the worsening economic climate, and an increase in average cost per claim due to fewer service providers willing and able to attend to claims, which may result in cash in lieu payments increasing. As economic conditions deteriorate there may also be an increase in fraudulent claims. However due to sovereign measures and controls, the claims incidence on the motor book is expected to go down thereby impacting headline earnings positively via reduction in loss ratios.

Stress testing is underway to quantify the impact of the COVID-19 pandemic. The spread of COVID-19 appears to be already having significant impacts on global investment markets and it further poses material business continuity and insurance risks to the Liberty group.

***The Issuer's business and profitability may be adversely affected by liquidity and funding risks***

*Volatility in capital or credit markets may impact the Group's ability to access liquidity and funding*

The Group's primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital and loan markets.

In respect of South Africa, the banking sector is characterised by certain structural features, such as a low discretionary savings rate in general and a high percentage of these are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these savings translate into institutional funding for the banking system that comprises wholesale funding from financial institutions across a range of deposits, loans and financial instruments. These deposits have a different liquidity profile to retail deposits. As a result, the Issuer, along with other banking groups in South Africa, has a higher reliance on wholesale funding than retail deposits. As at 31 December 2019, retail deposits comprised 22 per cent. of the total funding-related liabilities of SBSA and 27 per cent. of the total funding-related liabilities of SBG.

Wholesale funding sourced by members of the Group is usually of a short-to-medium term and entered into on a contractual basis. Wholesale funding is more expensive than retail deposits, and is sourced from a small number of depositors, principally, fund managers. As at 31 December 2019, 83 per cent. of SBSA's deposits and debt funding had a contractual maturity date of 12 months or less or were repayable on demand. As at 31 December 2019, SBSA's largest single depositor accounted for 2.6 per cent. of total deposits and the top 10 depositors accounted for 9.6 per cent. of total deposits, well within SBSA's risk appetite of 10 per cent. and 20 per cent. respectively. As at 31 December 2019, 85 per cent. of SBG's deposits and debt funding had a contractual maturity date of 12 months or less or were repayable on demand. As at 31 December 2019, the largest single depositor accounted for 2.2 per cent. of total deposits and the top 10 depositors accounted for 8.0 per cent. of total deposits, well within the Group's risk appetite of 10 per cent. and 20 per cent. respectively.

If a substantial portion of the depositors withdraw their demand deposits or did not roll over their term deposits upon maturity, the Issuer may need to seek more expensive sources of funding to meet its funding requirements and no assurance can be made that additional funding will be obtained on commercially reasonable terms as and when required, or at all. Any inability to refinance or replace such deposits with alternative funding could adversely affect the liquidity and financial condition of SBSA or SBG.

Disruptions, uncertainty or volatility in the capital and credit markets may limit the Issuer's ability to refinance maturing liabilities with long-term funding and may increase the cost of such funding. The availability to the Issuer of any additional financing it may need will depend on a variety of factors,

such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Issuer's financial condition, credit ratings and credit capacity. The possibility that customers or lenders could develop a negative perception of the Issuer's financial prospects if, for example, the Issuer incurs large losses, experiences significant deposit outflows or if the level of the Issuer's business activity decreases, could also affect the availability of any additional financing.

Although the Issuer believes that its level of access to domestic and international inter-bank and capital markets and its liquidity risk management policies allow and will continue to allow the Issuer to meet its short-term and long-term liquidity needs, any maturity mismatches may have an adverse impact on its financial condition and results of operations. Furthermore, there can be no assurance that the Issuer will be successful in obtaining additional sources of funds on acceptable terms or at all.

*A downgrade in the Issuer's credit ratings or the credit rating of South Africa could have an adverse effect on the Issuer's access to liquidity sources and funding costs*

As of the date of this Risk Factor & Other Disclosures Schedule, SBSA's short and long-term foreign currency deposit rating was assessed by Moody's Investors Service Cyprus Ltd. ("**Moody's**") as NP and Ba2, respectively, with a negative outlook and SBSA's short and long-term foreign currency issuer default rating was assessed by Fitch Ratings Limited ("**Fitch**") as B and BB-, respectively, with a negative outlook. As of the date of this Risk Factor & Other Disclosures Schedule, SBG's long-term Issuer rating was assessed by Moody's as Ba3 with a negative outlook and SBG's short and long-term foreign currency issuer default rating was assessed by Fitch as B and BB-, respectively, with a negative outlook. Moody's award of SBG's rating is one notch lower than the deposit rating assigned to SBSA. SBG's issuer rating is mainly driven by the structural subordination of SBG's creditors to those of SBSA.

A downgrade of the Issuer's credit ratings may increase its cost of borrowing, limit its ability to raise capital and adversely affect its results of operations.

In March 2020, SBSA's credit rating was downgraded to Ba1 from Baa3 with a negative outlook by Moody's, as SBSA's rating was constrained by its sizeable exposure to government securities, which effectively links its creditworthiness to that of the national government. The negative outlook also reflected potential pressures on the Issuer's asset quality and profitability, as a result of the weakening operating environment. Also in March 2020, SBSA and SBG's credit ratings were downgraded to BB from BB+ with a negative outlook by Fitch, driven by the expected negative impact from the COVID-19 pandemic on banks' operating environment and key financial metrics. Fitch expects South African banks to face multiple challenges in the near term, including a decline in client activity, lower interest rates (which will put pressure on margins) and rising credit losses. These factors will increase risks to banks' earnings, asset quality and capitalisation.

On 20 November 2020, Moody's and Fitch downgraded SA's sovereign ratings to Ba2 and BB- respectively, both with a negative outlook, and S&P maintained their sovereign rating at BB- with a stable outlook. In the days that followed, the South African banks were also downgraded. SBG's ratings were downgraded to Ba3 (Moody's) and BB- (Fitch), and SBSA's ratings were downgraded to Ba2 (Moody's) and BB- (Fitch). On 24 November 2020, following on from the downgrade of SA Sovereign, Moody's downgraded the long-term local and foreign currency deposit ratings of SBSA to Ba2 from Ba1 and SBG to Ba3 from Ba2. The outlook remains negative. Drivers for the rating action is the deterioration in the creditworthiness of the South African sovereign as the weakening in the

sovereign's credit profile has implications for the banks given the interlinkages between the sovereign's creditworthiness and the banks' balance sheets and the gradual weakening of the banks' standalone credit profiles as the coronavirus pandemic exacerbates an already challenging operating environment in South Africa. Moody's expects the banks' asset quality to deteriorate materially. On 27 November 2020, following on from the downgrade of SA Sovereign, Fitch downgraded the long-term issuer default rating of SBSA and SBG to BB- from BB. The outlook remains negative. The banks' ratings are highly influenced by Fitch's assessment of South Africa's operating environment and the banks' capitalisation and leverage, which are highly sensitive to adverse changes in the sovereign's credit profile, as Fitch believes it is unlikely that the banks would remain solvent following a sovereign default.

The downgrades, on their own, are not expected to have a material impact on SBG's and SBSA's risk-weighted assets and capital adequacy.

Further downgrade or potential downgrade of the South African sovereign rating or a change in rating agency methodologies relating to systemic support provided by the South African sovereign could also negatively affect the perception by rating agencies of the Issuer's ratings. The Issuer continues to proactively plan for the potential implications of further South African sovereign credit rating agency downgrades for both local and foreign currency which could still have a significant impact on the Issuer's access to, and cost of foreign currency liquidity sources.

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

*The Issuer is subject to prescribed regulatory capital and liquidity requirements that could affect its operations. A failure to adhere to these requirements may result in constrained asset growth and restrictions being placed on distributions which may impact the Issuer's ability to fulfil its obligations under the Notes*

The Issuer is subject to capital adequacy requirements specified by the South African Reserve Bank (the "SARB"), which provide for a minimum common equity tier 1 ("CET 1"), tier 1 and total capital adequacy ratio.

The amended Regulations relating to Banks (as further amended on 20 May 2016) (as defined in the Conditions) effective 1 January 2013 are based on the Basel III framework ("Basel III") introduced by the Basel Committee on Banking Supervision ("BCBS") and provide the minimum risk based capital ratios. The SARB adopted the Basel III framework, subject to certain phase-in provisions as provided by the BCBS from 1 January 2013. From 1 January 2019 the requirements that were subject to phase-in provisions have been fully implemented. The minimum CET 1, Tier 1 and Total capital adequacy ratios for 2019 are 8.50 per cent, 10.75 per cent and 14.00 per cent respectively. These minimum ratios exclude the countercyclical buffer and confidential bank-specific pillar 2b capital requirement but include the maximum potential domestic systemically important bank requirement ("D-SIB"), which is also bank-specific and therefore confidential.

In response to pressures on banks' capital supply brought about by the COVID-19 pandemic, the PA has implemented measures under Directive D2/2020, issued in terms of section 6(6) of the Banks Act to reduce the currently specified minimum requirement of capital and reserve funds to be maintained by banks, in order to provide temporary capital relief to enable banks to counter economic risks to

individual banks as well the financial system as a whole. The Basel III capital buffers continue to make it more challenging for banks and bank holding companies to comply with minimum capital ratios. Failure by the Issuer to meet certain of these buffers, for example the capital conservation and countercyclical buffers, could result in restrictions being placed on distributions, including dividends and discretionary payments, and any failure by the Issuer to maintain its capital ratios may result in action taken in respect of the Issuer, which may in turn impact on its ability to fulfil its obligations under the Notes.

In addition, Basel III prescribes two minimum liquidity standards for funding liquidity. The first is the liquidity coverage ratio ("**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. The second is the net stable funding ratio ("**NSFR**"), which became effective on 1 January 2018, and which aims to promote medium and long-term funding of banks' assets and activities.

South Africa, as a G20 and BCBS member country, was required to meet the fully compliant Basel III LCR framework of 100 per cent. in 2019. SBSA reported a LCR of 124.4 per cent as at 31 December 2019 based on a simple average of 92 days of daily observations over the quarter ended 31 December 2019, exceeding the SARB's minimum requirement of 100 per cent. SBG reported a LCR of 138.4 per cent as at 31 December 2019 based on a simple average of 92 days of daily observations over the quarter ended 31 December 2019 for the majority of SBG's balance sheet and a simple average of the three month-end data points for certain Africa Regions banking entities which are not yet reported daily, exceeding the SARB's minimum requirement of 100 per cent.

The PA is cognisant that market liquidity in South Africa has decreased due to the current financial market turmoil resulting from the COVID-19 pandemic and as a result, banks are under increased pressure to comply with the currently prescribed LCR requirements. This has been primarily driven by risk-averse depositors moving out of term funding and into short-term funding as well as large portions of unencumbered high-quality liquid assets held by banks decreasing in value due to negative mark-to-market adjustments caused by increases in the yields of the underlying instruments. The PA views the current financial market turmoil as a period of financial stress and has deemed it appropriate to temporarily amend the required level specified for banks' compliance with the LCR. Under Directive D1/2020, issued in terms of section 6(6) of the Banks Act, the SARB's minimum requirement of 100 per cent for LCR has been reduced to 80 per cent with effect from 1 April 2020 until such time as the PA directs in writing that it is of the view that the financial markets have normalised. The Directive is aimed at providing temporary liquidity relief during this time to banks, branches of foreign institutions and controlling companies, in line with the intention of the Basel III LCR framework.

The SARB has approved the 2019/2020 committed liquidity facility ("**CLF**") at a reduced value compared to the CLF for 2018. The decrease in the CLF was driven by the PA Guidance Note 5/2019 containing revised guidelines and conditions relating to the continued provision of the CLF thereby signalling the SARB's intention to gradually phase out the CLF by 1 December 2021.

The Issuer successfully managed its balance sheet structures and maintained NSFR compliance for 2019, with SBSA reporting a NSFR of 108.8 per cent as at 31 December 2019 in excess of the 100.0 per cent regulatory requirement, and SBG reporting a NSFR of 119.5 per cent. as at 31 December 2019 in excess of the 100.0 per cent. regulatory requirement, as well as specified internal risk appetite requirements.

Failure by the Issuer to meet the minimum liquidity standards for funding liquidity (LCR and NSFR), could limit the bank's ability to support planned lending activities, and any failure by the Issuer to maintain its liquidity ratios may result in the enforcement and execution of the contingent funding plan.

### **Regulatory risks relating to the Issuer**

*The impact of any future change in law or regulation on the Issuer's business is uncertain*

The Issuer is subject to the laws, regulations, administrative actions and policies of South Africa and each other jurisdiction in which it operates, and the Issuer's activities may be constrained by applicable legal and regulatory requirements. Changes in regulation and supervision, particularly in South Africa, could materially affect the Issuer's business, the products or services offered, the value of its assets and its financial condition. Although the Issuer work closely with its regulators and continuously monitor the situation, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the control of the Issuer. The Issuer may incur reputational damage and financial losses if it is unable to anticipate or prepare for future changes to law or regulation.

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Group operates may adversely affect the Issuer's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. In particular, any change in regulation to increase the requirements for capital adequacy or liquidity, or a change in accounting standards, could have a material adverse impact on the Group's business, results, financial condition or prospects.

*In the context of South Africa*, a parliamentary committee has been set up to investigate Section 25 of the Constitution on expropriating property. Public hearings to discuss the proposals were held in 2019 and amendments to the Constitution have been released for comment. In addition, amendments to the Expropriation Act are being debated in Parliament. This investigation, together with slow progress on the legislation necessary for land reform programmes, is likely to create an uncertain policy environment for land reform in the short term for the financial sector.

Consumer credit regulation has been tightened to provide stronger consumer protection under the National Credit Act, 2005 (the "**National Credit Act**"), and includes Affordability Assessment Regulations for unsecured loans (2015), and the Review of Fees and Interest Rates (2016), which capped consumer credit interest rates, administration fees and initiation fees. Additional amendments to the NCA were enacted in 2019. These include increased powers of enforcement of the regulator, and additional mechanisms to assist vulnerable, over-indebted customers, and, *inter alia*, to provide for debt intervention for low income earners within South Africa (earning less or equal to R7500). The combined impact of these reforms may increase the cost of credit for consumers as well as restrict access to credit from formal credit providers for the lower income market, which may negatively impact demand for products and services provided by SBSA.

*In the context of the Africa Regions*, regulatory activity in 2019 was mostly focused on consumer demand and competition and security, resilience and stability of financial systems. Interactions with, and enquiries from, regulators regarding capital and liquidity-related regulatory requirements indicated further impending changes to the regulatory landscape in 2020, with the expectation of financial institutions to be risk sensitive, resulting in higher capital requirements.

### ***Risks relating to Emerging Markets***

*Investors in emerging markets should be aware that these markets may be subject to greater risk than more developed markets, which may adversely affect the value or liquidity of Notes issued by the Issuer under the Programme*

South Africa and the economies of the Africa Regions are generally considered by international investors to be emerging markets. SBSA and its subsidiaries are fully integrated with the rest of the Group and therefore also play a key role in positioning the Group to capitalise on the growth in emerging markets in the rest of Africa. Investors in emerging markets such as South Africa and sub-Saharan Africa should be aware that these markets may be subject to greater risk than more developed markets. These risks include economic instability as well as, in some cases, significant legal and political risks.

Economic and financial market volatility in South Africa has been caused by many different factors. Due to its liquidity and use as a proxy for emerging market trades, the Rand is particularly exposed to changes in investor sentiment and resulting periods of volatility. In addition to this, economic instability in South Africa and in other emerging market countries is caused by many different factors, including the following:

- the COVID-19 pandemic;
- electricity supply instability;
- a deteriorating fiscal outlook;
- policy uncertainty and rising populism;
- a wide current account deficit;
- currency volatility;
- constrained commodity prices;
- capital outflows; and
- a decline in domestic demand.

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

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Investors should also note that developing markets, such as those in African countries, are subject to rapid change.

*Exchange Control regulations may impact the Group's operations in the relevant countries in which they operate*

There has been a gradual relaxation in exchange controls in South Africa since 1995. The extent to which the Government may further relax such exchange controls cannot be predicted with certainty, although the Government has committed itself to a gradual approach of further relaxation. Further relaxation or the abolition of exchange controls may precipitate a change in the capital flows to and from South Africa. If the net result of this were to cause large capital outflows, this could adversely affect the Group's business and financial condition as a whole.

In the context of the Africa Regions, the introduction of exchange controls, or changes to existing exchange control regulations, may similarly impact the Group's business and financial condition in the relevant country in which the exchange controls are introduced or changed, as applicable

### **Risks relating to the Notes**

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

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been, or will be, made for the Notes issued under the Programme to be admitted to listing on the JSE, there is no assurance that such applications will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

#### ***The Notes may be redeemed prior to maturity***

Unless in the case of any particular Tranche of Notes the relevant Applicable Pricing Supplement specify otherwise, in the event that the Issuer has or will be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Applicable Pricing Supplement specify that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes. Any redemption of Tier 2 Notes prior to their Maturity Date (if any) or Additional Tier 1 Notes prior to their Maturity Date (if any) requires the prior written approval of the PA.

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

Notes issued under the Programme will be uncertificated. Except in the circumstances described in Condition 13 (Exchange of Beneficial Interests and Replacement of Individual Certificates) of the General Terms and Conditions and Condition 14 (Exchange of Beneficial Interests and Replacement of Individual Certificates) of the Additional Tier 1 Terms and Conditions, investors will not be entitled to receive certificated Notes. The Participants will maintain records of the Beneficial Interests in the Uncertificated Notes. Investors of such Uncertificated Notes will be able to trade their Beneficial Interests only through the Central Depository.

The Issuer will discharge its payment obligations under the Uncertificated Notes by making payments to or to the order of the common depository for the Central Depository for distribution, via the Participants, to the holders of Beneficial Interests in such Uncertificated Notes, in accordance with the CSD Procedures. A holder of a Beneficial Interest in an Uncertificated Note must rely on CSD Procedures to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, Beneficial Interests.

Holders of Beneficial Interests in the Uncertificated Notes must vote in accordance with the CSD Procedures. Holders of Beneficial Interests in the Uncertificated Notes must exercise their respective rights to vote through their respective Participants. The respective Participants will vote in accordance with the respective instructions conveyed to them by the respective holders of Beneficial Interests in the Uncertificated Notes, in accordance with CSD Procedures.

***Credit Rating***

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

***Exchange rate risks***

The Issuer will pay principal and interest on the Notes in the Specified Currency (as defined in the Applicable Pricing Supplement). 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. Similarly, the Issuer may be exposed to potential losses if the Specified Currency were to depreciate against key currencies in which the Issuer's revenues are based, which may have an adverse effect on its financial condition and results of operations.

### ***Legal investment considerations may restrict certain investments***

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

### ***The Notes may be de-listed, which may materially affect an investor's ability to resell***

Any Notes that are listed on the JSE or any other Financial Exchange(s) may be de-listed. If any Notes are delisted, the Issuer is obliged to endeavour promptly to obtain an alternative listing. Although no assurance is made as to the liquidity of the Notes as a result of listing on the JSE or any other Financial Exchange(s), delisting the Notes may have a material adverse effect on a Noteholder's ability to resell the Notes in the secondary market.

### ***Risks related to the structure of the particular issue of Notes***

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

#### *Notes subject to optional redemption by the Issuer*

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### *Notes issued at a substantial discount or premium*

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

#### *Modification and waivers and substitution*

The Terms and Conditions of the Notes 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 in law*

The Programme Memorandum (as read together with the Disclosure Schedules), the Notes and the applicable Terms and Conditions, are governed by, and will be construed in accordance with, the laws of South Africa. No assurance can be given as to the impact of any possible judicial decision or change to the laws of South Africa or administrative practice in South Africa after the Programme Date.

### ***The value of and return on any Notes linked to a benchmark may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks***

Subsequent to the events related to the actual and attempted manipulation of the London Interbank Offered Rate ("**LIBOR**") in 2012, there has been a coordinated response from international regulators and central banks to improve the robustness, reliability and transparency of interest rate benchmarks. In line with this coordinated global response towards strengthening major interest rate benchmarks that are used as reference rates, the South African Reserve Bank ("**SARB**") published a "*Consultation paper on selected interest rate benchmarks in South Africa*" on 30 August 2018 (the "**Consultation Paper**") containing proposals on the reform of key interest rate benchmarks used in South Africa as well as proposals on a suite of new benchmarks that could potentially be used as alternative reference interest rates. The SARB also set up an independent body referred to as the Market Practitioners Group ("**MPG**") comprising members of the SARB, FSCA, and senior professionals from a variety of institutions, reflecting different market interest groups active in the domestic money market, to provide input into the design and operationalisation of the benchmark proposals.

The reform of interest rate benchmarks in South Africa is informed by various considerations, including concerns with design aspects of the existing key reference rates, monetary and financial stability policy considerations and aligning with best practice standards.

Following a public commentary process on the Consultation Paper, the SARB published a "*Report on stakeholder feedback on the reform of interest rate benchmarks in South Africa*" in May 2019 (the "**Benchmark Reform Feedback Report**") setting out key issues arising from the comments received on the Consultation Paper and the SARB's position regarding those key issues. The Benchmark Reform Feedback Report is also intended to serve as a basis for engagement at the meetings of the MPG and its work-streams. In this report, the SARB notes that the reform of interest rate benchmarks in South Africa is a multi-year project, the implementation of which will be phased in over the next few years, Specifically with reference to ZAR-JIBAR-SAFEX, the SARB urges the MPG and its work-streams to prioritise the reform of the reference rate and to provide an interim solution, which will become effective from a date announced by the SARB. The report also indicated that, as a next step, the SARB would publish a technical specification paper to serve as a reference for the computation of various benchmarks.

On 19 June 2020 the SARB published the '*Statement of methodology and the policies governing the SARB-administered interest rate benchmarks*', otherwise referred to as the Technical Specification Paper ("**TSP**"), for public comment. The TSP is a draft statement of the methodology and policies that will govern proposed interest rate benchmarks to be administered by the SARB. An extensive consultation process was followed in the development of the technical specification of the proposed interest rate benchmarks, including consultations with global counterparts. In the domestic market, input from members of the MPG and its various work streams was considered.

The TSP details the methodologies and policies that will be applied for the following suggested benchmarks:

- South African Rand Interbank Overnight Rate (**ZARIBOR**);
- South African Secured Overnight Financing Rate (**ZASFR**);
- South African Rand Overnight Index Average (**ZARONIA**);
- Term Wholesale Financial Corporate Fixed Deposit Benchmark Rate; and
- Term Wholesale Non-financial Corporate Fixed Deposit Benchmark Rate.

This suite comprises four new benchmarks and a reformed version of the existing overnight benchmark rate – the South African Benchmark Overnight Rate (**SABOR**). The benchmark proposed as a replacement for SABOR is ZARONIA, which is an unsecured overnight rate. While the number of proposed interest rate benchmarks is not definitive, the ultimate outcome of reform will likely feature the coexistence of several interest rate benchmarks to fulfil different market and policy purposes.

The SARB will continue to be the official administrator of the Johannesburg Interbank Average Rate (**JIBAR**). However, the policies specified in the draft TSP do not apply to JIBAR, given an existing JIBAR Code of Conduct, Governance Process and Operating Rules dated 24 March 2014. In addition, the SARB has noted that efforts are underway to strengthen the JIBAR and add to its credibility as an interim solution until an alternative reference rate is fully operational. Details of the work being undertaken in this regard will be published by SARB later this year.

Comments from the public in respect of the methodologies and policies contained in the TSP were due by 19 September 2020. The SARB has indicated that it will embark on a data collection process which will enable the testing of the proposed benchmarks as well as the observation and refinement thereof. The TSP will be revised as necessary, based on the feedback received and observations made.

The reform of interest rate benchmarks may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such "benchmark".

It is not possible to predict with certainty whether, and to what extent, ZAR-JIBAR-SAFEX or any other benchmark will continue to be supported going forward. This may cause ZAR-JIBAR-SAFEX or any other such benchmark to perform differently than they have done in the past, and may have other consequences which cannot be predicted. The potential elimination of ZAR-JIBAR-SAFEX or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences, in respect of any Notes referencing such benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any benchmark reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark. A full copy of the Consultation Paper, the Benchmark Reform Feedback Report and the TSP are available at <https://www.resbank.co.za/Markets/Pages/default.aspx>.

***In respect of any Notes issued as Green Bonds, Social Bonds or Sustainable Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor***

The Applicable Pricing Supplement relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply the proceeds from an offer of those Notes specifically for projects and activities that (i) promote climate-friendly and other environmental purposes ("**Green Projects**"), (ii) are aimed at reducing economic and social inequality ("**Social Projects**"), or (iii) have both a positive environmental and social impact ("**Sustainable Projects**"). Prospective investors should determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Issuer that the use of such proceeds for any Green Projects, Social Projects or Sustainable Projects, as applicable, will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, social or sustainability impact of any projects or uses, the subject of or related to, any Green Projects, Social Projects or Sustainable Projects, as applicable. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green", "social" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green", "social" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Green Projects, Social Projects or Sustainable Projects, as applicable, will meet any or all investor expectations regarding such "green", "social" or "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Green Projects, Social Projects or Sustainable Projects, as applicable.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Green Projects, Social Projects or Sustainable Projects, as applicable, to fulfil any environmental, social, sustainability and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of the Programme Memorandum (as read together with the Disclosure Schedules). Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future

applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, social or sustainability impact of any projects or uses, the subject of or related to, any Green Projects, Social Projects or Sustainable Projects, as applicable. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Green Projects, Social Projects or Sustainable Projects, as applicable, in, or substantially in, the manner described in the applicable Applicable Pricing Supplement, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Green Projects, Social Projects or Sustainable Projects, as applicable, will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Green Projects, Social Projects or Sustainable Projects, as applicable. Nor can there be any assurance that such Green Projects, Social Projects or Sustainable Projects, as applicable, will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Green Projects, Social Projects or Sustainable Projects, as applicable, as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Green Projects, Social Projects or Sustainable Projects, as applicable, and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

### **Risks relating to Subordinated Notes**

#### ***Substitution or Variation of Tier 2 Notes upon the occurrence of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or a Change in Law***

Upon the occurrence and continuation of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or, if specified in the Applicable Pricing Supplement, a Change in Law (each as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions), the Issuer may, subject as provided in Condition 8.6 (*Substitution or Variation*) of the General Terms and Conditions and without the need for any consent of the Noteholders or Couponholders, substitute all (but not some only) of any Series of Tier 2 Notes, or vary the terms of all (but not only some) such Notes so that it remains or, as appropriate, becomes, Qualifying Tier 2 Securities (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions). While the Issuer cannot make changes to the terms of Tier 2 Notes that are materially less favourable to the holders of the relevant Tier 2 Notes, no assurance can be given as to whether any of these changes will negatively affect any particular Holder. In addition, the tax consequences of holding such substituted or varied Tier 2 Notes could be different for some categories of Holders from the tax consequences for them of holding the Tier 2 Notes prior to such substitution or variation.

***Substitution or Variation of Additional Tier 1 Notes upon the occurrence of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or a Change in Law***

Upon the occurrence and continuation of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or, if specified in the Applicable Pricing Supplement, a Change in Law (each as defined in Condition 1 (*Interpretation*) of the Additional Tier 1 Terms and Conditions), the Issuer may, subject as provided in Condition 9.6 (*Substitution or Variation*) of the Additional Tier 1 Terms and Conditions and without the need for any consent of the Noteholders, substitute all (but not some only) of any Series of Additional Tier 1 Notes, or vary the terms of all (but not only some) such Additional Tier 1 Notes so that they remain or, as appropriate, become Qualifying Tier 1 Securities (as defined in Condition 1 (*Interpretation*) of the Additional Tier 1 Terms and Conditions).

***Early Redemption of Subordinated Notes (other than Additional Tier 1 Notes) upon the occurrence of a Capital Disqualification Event (in relation to Tier 2 Notes only), Tax Event (Gross Up), Tax Event (Deductibility) or a Change in Law***

Upon the occurrence and continuation of a Capital Disqualification Event (in relation to Tier 2 Notes only), Tax Event (Gross up), Tax Event (Deductibility) or, if specified in the Applicable Pricing Supplement, a Change in Law (each as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions), but (other than in respect of a Capital Disqualification Event) subject to Condition 8.7 (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) of the General Terms and Conditions, the Issuer may, at its option, redeem all (but not some only) of the Subordinated Notes at the Early Redemption Amount as specified in, or determined in the manner specified in, the applicable Applicable Pricing Supplement or Pricing Supplement. Noteholders will not receive a make-whole amount or any other compensation in the event of any early redemption of Notes.

There can be no assurance that holders of Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investments in the Notes.

***Early Redemption of Additional Tier 1 Notes upon the occurrence of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or a Change in Law***

Upon the occurrence and continuation of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or, if specified in the Applicable Pricing Supplement, a Change in Law (each as defined in Condition 1 (*Interpretation*) of the Additional Tier 1 Terms and Conditions), but (other than in respect of a Capital Disqualification Event) subject to Condition 9.7 (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Additional Tier 1 Notes*) of the Additional Tier 1 Terms and Conditions, the Issuer may, at its option, redeem all (but not some only) of the Additional Tier 1 Notes at the Redemption Amount as specified in, or determined in the manner specified in, the Applicable Pricing Supplement. Noteholders will not receive a make-whole amount or any other compensation in the event of any early redemption of Additional Tier 1 Notes.

There can be no assurance that holders of Additional Tier 1 Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investments in the Additional Tier 1 Notes.

***The Issuer's obligations under Tier 2 Notes are subordinated and Tier 2 Noteholders will have no right of set-off***

The Issuer's obligations under Tier 2 Notes will be unsecured and subordinated and will, in the event that the Issuer is placed into liquidation or is wound-up, be subordinated to the claims of Senior Creditors (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions) of the Issuer.

If the Issuer is wound-up or put into liquidation, voluntarily or involuntarily, Tier 2 Noteholders (as defined in the General Terms and Conditions) will not be entitled to any payments of principal or interest in respect of the Tier 2 Notes until the claims of Senior Creditors which are admissible in any such winding-up or liquidation have been paid or discharged in full. If the Issuer does not have sufficient assets at the time of winding-up or liquidation to satisfy the claims of the Senior Creditors, then Tier 2 Noteholders will not receive any payment in respect of their 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 any amount due on a Tier 2 Note for a period of 7 (seven) days or more, such Tier 2 Noteholder may only institute proceedings for the winding-up of the Issuer (and/or prove a claim in any winding-up of the Issuer) but take no other action in respect of that default. Only if an order of court is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer (other than pursuant to a Solvent Reconstruction (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions) shall Tier 2 Noteholders be able to declare (upon written notice) such Tier 2 Note immediately due and payable.

Subject to Applicable Law, in accordance with the Terms and Conditions no Tier 2 Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer under or in connection with the Tier 2 Notes and each Tier 2 Noteholder shall, by virtue of being the holder of any Tier 2 Note, be deemed to have waived all such rights of set-off, compensation and retention.

Accordingly, although Tier 2 Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Tier 2 Notes will lose all or some of its investment should the Issuer become insolvent.

***The Issuer's obligations under Additional Tier 1 Notes are subordinated***

The Issuer's obligations under Additional Tier 1 Notes will be unsecured and subordinated and will, in the event that the Issuer is placed into liquidation or is wound-up, be subordinated to the claims of Senior Creditors (as defined in Condition 1 (*Interpretation*) of the Additional Tier 1 Terms and Conditions).

If the Issuer is wound-up or put into liquidation, voluntarily or involuntarily, the Additional Tier 1 Notes shall become repayable but rank junior to the claims of Senior Creditors and holders of Tier 2 Preference Shares. The amount payable in such instance by the Issuer in respect of each Note (in lieu of any other payment by the Issuer) shall be equal to the amount as would have been payable to the Noteholder if, on the day prior to the commencement of such winding-up or administration and thereafter, such Noteholder were (in respect of such Note) the holder of one of a class of preference shares in the capital of the Issuer ranking *pari passu* as to a return of assets in such winding-up or administration with other Additional Tier 1 Noteholders of the Issuer and with that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a

preferential right to a return of assets in such winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer other than preference shares which, upon issue, qualified (or were intended to qualify) as Tier 2 Capital .

In addition, the rights of Additional Tier 1 Noteholders are limited in certain respects. In particular, if the Issuer defaults on a payment of any amount due on an Additional Tier 1 Note for a period of 7 (seven) days or more, such Additional Tier 1 Noteholder may only institute proceedings for the winding-up of the Issuer but take no other action in respect of that default. Further, if at any time prior to the date on which the Original Principal Amount of the Additional Tier 1 Notes has been Converted or Written-off (as applicable) in full, a liquidation or winding-up (whether or not instituted by an Additional Tier 1 Noteholder as aforesaid and other than an Approved Winding-up) or administration of the Issuer occurs where the liquidator or administrator has given notice that it intends to declare and distribute a dividend, each Additional Tier 1 Noteholder may only prove in such winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer in respect of the Additional Tier 1 Notes, such claim being as provided in Condition 9.2 (*Winding-up of the Issuer*) of the Additional Tier 1 Terms and Conditions. Consequently, Additional Tier 1 Noteholders have no rights to accelerate the payment obligations of the Issuer under Additional Tier 1 Notes.

Subject to Applicable Laws, in accordance with the General Terms and Conditions no Tier 2 Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer under or in connection with the Tier 2 Notes and each Tier 2 Noteholder shall, by virtue of being the holder of any Tier 2 Note, be deemed to have waived all such rights of set-off, compensation and retention.

Accordingly, although Additional Tier 1 Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Additional Tier 1 Notes will lose all or some of its investment should the Issuer become insolvent.

***Subordinated Notes that are not Tier 2 Notes or Additional Tier 1 Notes will be subordinated to most of the Issuer's liabilities***

The payment obligations of the Issuer under Subordinated Notes that are not Tier 2 Notes or Additional Tier 1 Notes will rank behind Senior Notes. Subordinated Notes that are not Tier 2 Notes or Additional Tier 1 Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank pari passu among themselves and at least pari passu with all Other Subordinated Securities (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions) but in priority to Tier 2 Capital and Additional Tier 1 Capital.

With regard to any Subordinated Notes that are not Tier 2 Notes or Additional Tier 1 Notes, if the Issuer is declared insolvent and a winding-up is initiated, the Issuer will be required to pay the holders of unsubordinated debt and meet its obligations to all its other creditors (including unsecured creditors but excluding any obligations in respect of Other Subordinated Securities, Additional Tier 1 Securities and Other Tier 2 Securities) in full before it can make any payments on Subordinated Notes that are not Tier 2 Notes or Additional Tier 1 Notes. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under such Subordinated Notes that are not Tier 2 Notes or Additional Tier 1 Notes.

***The Issuer is not prohibited from issuing further debt which may rank pari passu with or senior to the Subordinated Notes***

There is no restriction on the amount of securities or indebtedness that the Issuer may issue or incur which ranks senior to, or *pari passu* with, Subordinated Notes. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Subordinated Notes on a winding-up, liquidation or curatorship of the Issuer.

***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 BCBS 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 BCBS 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 (as defined below) 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(11)(b) 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 an Additional Tier 1 capital instrument ("**Additional Tier 1 instrument**") unless a duly enforceable SLAR is in place. 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 capital instrument ("**Tier 2 instrument**") unless a duly enforceable SLAR is in place.

The SARB has provided clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in Guidance Note 2 of 2012 (*Matters related to the implementation of Basel III*) and Guidance Note 6 of 2017 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) ("**Guidance Note 6**"), Circular 6 of 2013 (*Matters related to conditions for the issue of instruments or shares, the proceeds of which rank as Tier 2 capital*) and Circular 6 of 2014 (*Interpretation of specified conditions for the issuing of instruments or shares which rank as additional tier 1 capital and tier 2 capital*), and has indicated that it, together with National Treasury, is in the process of drafting legislation that will provide for a detailed SLAR. No official statement

has however been made as to when the SLAR will be implemented in South Africa. The SARB has also provided guidance for its approach on bank recovery and outlined the phased-in approach to be followed in relation to the development of bank resolution plans in Guidance Note 4 of 2012 (*Further guidance on the development of recovery and resolution plans by South African banks*). These Guidance Notes are broadly drafted and require further refinement, and market participants continue to discuss the Regulations Relating to Banks and the Guidance Notes with the SARB. Paragraph 1.3 of Guidance Note 6 provides that the SARB will continue to monitor international developments around loss absorbency requirements, and if necessary, will issue further guidance.

### Tier 2 Notes

Guidance Note 6 requires banks to indicate, in the contractual terms and conditions of any Tier 2 instruments issued, whether such instruments would be either written-off or converted into the most subordinated form of equity of the bank and/or its controlling company (such conversion, "**Conversion**") at the occurrence of a trigger event determined in the PA'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 SLAR, such Tier 2 instruments will have to contractually provide for write-off or Conversion (at the discretion of the Relevant Regulator (as defined in the General Terms and Conditions)) at the occurrence of a Non-Viability Event (as defined in the General Terms and Conditions), as write-off and Conversion are understood and applied in terms of the regulatory framework applicable at the time of the issuance of such Tier 2 instruments) in order to qualify as Tier 2 Capital. The terms and conditions of Tier 2 Notes issued under the Programme accordingly provide for the Write-off (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions) of such Tier 2 Notes at the discretion of the Relevant Regulator upon the occurrence of a Non-Viability Event (see Condition 5.4 (*Loss Absorption Following A Non-Viability Event*) of the General Terms and Conditions (subject to Condition 5.5 (*Disapplication of Non-Viability Loss Absorption*) of the General Terms and Conditions).

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, upon the commencement of the SLAR, to have the existing contractual write-off/Conversion provisions of any Tier 2 instruments issued prior to the implementation of the SLAR replaced with the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR (see Condition 5.5 (*Disapplication of Non-Viability Loss Absorption*) of the General Terms and Conditions). Where the Issuer elects to have the Non-Viability Loss Absorption Condition continue to apply to Tier 2 Notes issued subject to such Non-Viability Loss Absorption Condition, rather than subjecting such Tier 2 Notes to the SLAR (on commencement of the legislation and/or regulations which implement(s) the SLAR), such Tier 2 Notes will be subject to such minimum requirements of the Statutory Loss Absorption Regime required to ensure that the Tier 2 Notes continue to qualify as Tier 2 Capital.

Whether in terms of the contractual write-off/Conversion provisions or the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, the possibility of write-off means that Tier 2 Noteholders may lose some or all of their investment. The exercise of any such power by the Relevant Regulator or any suggestion of such exercise could materially adversely affect the price or value of a Tier 2 Noteholder's investment in Tier 2 Notes and/or the ability of the Issuer to satisfy its obligations under such Tier 2 Notes.

Despite the above, whether regulated by the contractual write-off/Conversion provisions or the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, paragraph 2.6 of Guidance Note 6 provides that 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 Issuer is viable, as specified in writing by the Relevant Regulator. Accordingly, any write-off or Conversion of the Tier 2 Notes will generally be effected to ensure compliance with these minimum requirements only.

#### Additional Tier 1 Notes

Guidance Note 6 requires banks to indicate, in the contractual terms and conditions of any Additional Tier 1 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, a "Conversion") at the occurrence of a trigger event determined in the PA's discretion, as envisaged in Regulation 38(11)(b)(i) of the Regulations Relating to Banks. To the extent that any Additional Tier 1 instruments are issued prior to the commencement of the SLAR, such Additional Tier 1 instruments will have to contractually provide for write-off or Conversion (at the discretion of the Relevant Regulator) at the occurrence of a Non-Viability 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 Additional Tier 1 instruments in order to qualify as Additional Tier 1 Capital. The terms and conditions of Additional Tier 1 Notes issued under the Programme accordingly provide for the Conversion (as defined in Condition 1 (Interpretation) of the Additional Tier 1 Terms and Conditions) or the Write-off (as defined in Condition 1 (Interpretation)) of the Additional Tier 1 Terms and Conditions of such Additional Tier 1 Notes, as specified in the Applicable Pricing Supplement, at the discretion of the Relevant Regulator upon the occurrence of a Non-Viability Event (see Condition 8 (Loss Absorption Following A Non-Viability Event) of the Additional Tier 1 Terms and Conditions (subject to Condition 8.4 (Disapplication of Non-Viability Loss Absorption Condition) of the Additional Tier 1 Terms and Conditions).

Notwithstanding the requirement to provide for write-off and/or Conversion in the contractual terms and conditions of an Additional Tier 1 instrument, paragraph 6.3 of Guidance Note 6 provides that banks have the option to elect, on the commencement of the SLAR, to have the existing contractual write-off/Conversion provisions of any Additional Tier 1 instruments issued prior to the implementation of the SLAR replaced with the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR (see Condition 8.4 (Disapplication of Non-Viability Loss Absorption Condition) of the Additional Tier 1 Terms and Conditions). Where the Issuer elects to have the Non-Viability Loss Absorption Condition continue to apply to Additional Tier 1 Notes issued subject to such Non-Viability Loss Absorption Condition, rather than subjecting such Additional Tier 1 Notes to the SLAR (on commencement of the legislation and/or regulations which implement(s) the SLAR), such Additional Tier 1 Notes will be subject to such minimum requirements of the Statutory Loss Absorption Regime required to ensure that the Additional Tier 1 Notes continue to qualify as Additional Tier 1 Capital.

Whether in terms of the contractual write-off/Conversion provisions or the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, the possibility of write-off means that Additional Tier 1 Noteholders may lose some or all of their investment. The exercise of any such power by the Relevant Regulator or any suggestion of such exercise could materially adversely affect the price or value of an Additional Tier 1 Noteholder's investment in Additional Tier 1 Notes and/or the ability of the Issuer to satisfy its obligations under such Additional Tier 1 Notes.

Despite the above, whether regulated by the contractual write-off/Conversion provisions or the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, paragraph 2.6 of Guidance Note 6 provides that write-off or Conversion of Additional Tier 1 instruments will only occur to the extent deemed by the Relevant Regulator as necessary to ensure that the Issuer is viable, as specified in writing by the Relevant Regulator. Accordingly, any write-off or Conversion of the Additional Tier 1 Notes will generally be effected to ensure compliance with these minimum requirements only.

***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 Non-Viability Event***

Upon the occurrence of a Non-Viability Event (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions, Tier 2 Notes will be 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) in accordance with the Capital Rules (as defined in Condition 1 (*Interpretation*) of the General Terms and Conditions). Further to such 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 (as defined in the General Terms and Conditions) or any other breach of the Issuer's obligations under the General Terms and Conditions of any Tier 2 Notes.

A Non-Viability Event will occur when the relevant regulator has notified the Issuer that it has determined that a "trigger event" as specified in the Capital Rules has occurred. A trigger event in relation to Tier 2 instruments in the Capital Rules is described as being, at a minimum, the earlier of:

- (a) a decision that a write-off, without which the Issuer would become non-viable, is necessary, as determined and notified by the relevant regulator; or
- (b) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined and notified by the relevant regulator.

The occurrence of a Non-Viability Event is therefore inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control.

***Payment of any amounts of principal and interest in respect of Additional Tier 1 Notes will be cancelled or written-off upon the occurrence of a Non-Viability Event***

Upon the occurrence of a Non-Viability Event (as defined in Condition 1 (*Interpretation*) of the Additional Tier 1 Terms and Conditions), Additional Tier 1 Notes will be cancelled (in the case of a Conversion or Write-off (as applicable) in whole) or converted or written-off in part on a pro rata basis (in the case of a Conversion or Write-off (as applicable) in part) in accordance with the Capital Rules (as defined in Condition 1 (*Interpretation*) of the Additional Tier 1 Terms and Conditions). Further to such cancellation or Conversion or Write-off (as applicable), Additional Tier 1 Noteholders will no longer have any rights against the Issuer with respect to any amounts cancelled or Converted or Written-off (as applicable) and the Issuer shall not be obliged to pay compensation in any form to Additional Tier 1 Noteholders. Furthermore, any such cancellation or Conversion or Write-off (as applicable) will not constitute an event of default or any other breach of the Issuer's obligations under the Additional Tier 1 Terms and Conditions nor will it constitute an Event of Default or any other breach of the Issuer's obligations under the General Terms and Conditions.

A Non-Viability Event will occur when the relevant regulator has notified the Issuer that it has determined that a "trigger event" as specified in the Capital Rules has occurred. A trigger event in relation to Additional Tier 1 instruments in the Capital Rules is described as being:

- (a) at a minimum, the earlier of:
  - (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary, as determined and notified by the Relevant Regulator; or
  - (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined and notified by the Relevant Regulator; or
- (b) when the Issuer's Common Equity Tier 1 Capital Ratio is equal to or below 5.875 per cent.,

whichever is the earlier to occur; provided that paragraph (b) above will only apply if the Additional Tier 1 Notes are liability accounted by the Issuer.

The occurrence of a Non-Viability 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 or write-off of, Tier 2 Notes may have tax consequences in the hands of Tier 2 Noteholders, the Issuer or both***

The investment in, and disposal or write-off upon the occurrence a Non-Viability Event in respect of, Tier 2 Notes may have tax consequences in the hands of Tier 2 Noteholders, the Issuer or both. As any such potential consequence depends 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 or write-off of Tier 2 Notes will result in a tax liability.

***The investment in, and disposal or write-off of, Additional Tier 1 Notes may have tax consequences in the hands of Additional Tier 1 Noteholders, the Issuer or both***

The investment in, and disposal or write-off upon the occurrence a Non-Viability Event in respect of Additional Tier 1 Notes may have tax consequences in the hands of Additional Tier 1 Noteholders, the Issuer or both. As any such potential consequence depends on various factors, prospective investors in Additional Tier 1 Notes are strongly advised to consult their own professional advisers as to the tax consequence of investing in Additional Tier 1 Notes, and particularly as to whether a disposal, conversion or write-off of Additional Tier 1 Notes will result in a tax liability.

***The Additional Tier 1 Notes are a novel form of security and may not be a suitable investment for all investors***

The Additional Tier 1 Notes are a novel form of security. As a result, an investment in a Series of Additional Tier 1 Notes will involve certain increased risks. Each potential investor in a Series of Additional Tier 1 Notes must determine the suitability of such investment in light of its own circumstances. In particular, in respect of each Series of Additional Tier 1 Notes, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Additional Tier 1 Notes, the merits and risks of investing in the Additional Tier 1 Notes and the

information contained in the Programme Memorandum (as read together with the Disclosure Schedules);

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Additional Tier 1 Notes and the impact the Additional Tier 1 Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Additional Tier 1 Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Additional Tier 1 Notes, such as the provisions governing a Conversion or Write-off and the election or obligation to not pay interest, understand under what circumstances a Non-Viability Event will or may be deemed to occur, and be familiar with the behaviour of any relevant financial markets and their potential impact on the likelihood of a Non-Viability Event, a Capital Disqualification Event, a Tax Event or, if specified in the Applicable Pricing Supplement, a Change in Law occurring; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment, the Conversion or Write-off of the Additional Tier 1 Notes and its ability to bear the applicable risks.

***There is no scheduled redemption or maturity of the Additional Tier 1 Notes***

The Additional Tier 1 Notes are undated securities without any fixed redemption or maturity date. The Issuer is under no obligation to redeem any Series of Additional Tier 1 Notes at any time. Any optional redemption by the Issuer is subject to the prior approval of the Relevant Regulator. There is no redemption at the option of the holders of a Series of Additional Tier 1 Notes.

***The Issuer may decide to elect to not make interest payments in its sole and absolute discretion. The Additional Tier 1 Notes are not cumulative instruments and interest the Issuer elects or is not obliged to pay will not be cumulative***

Interest on each Tranche of Additional Tier 1 Notes will be due and payable only at the sole and absolute discretion of the Issuer and, accordingly, the Issuer shall have sole and absolute discretion to elect not to pay (in whole or in part) the Interest Amount otherwise scheduled to be paid on any Interest Payment Date.

In addition, the Issuer will not be obliged to pay any Interest Amount otherwise scheduled to be paid on each Tranche of Additional Tier 1 Notes on an Interest Payment Date to the extent that (a) such Interest Amount together with any Additional Amounts payable with respect thereto, when aggregated with other Relevant Distributions paid, declared or required to be paid in the then current financial year of the Issuer exceeds the amount of the Issuer's Distributable Items, or (b) the Issuer shall not be obliged to pay that Interest Amount in accordance with the requirements of the Capital Rules, or (c) the Relevant Regulator orders the Issuer not to pay that Interest Amount (in whole or in part).

All accrued and unpaid Interest Amounts on Additional Tier 1 Notes will also not be paid, and the Issuer will not be obliged to pay such Interest Amounts if a Non-Viability Event occurs.

If the Issuer provides notice of its election to not pay a portion, but not all, of an Interest Amount and the Issuer subsequently does not make a payment of the remaining portion of such Interest Amount on

the relevant Interest Payment Date, such non-payment shall evidence the Issuer's exercise of its discretion to elect not to pay such remaining portion of that Interest Amount and, accordingly, such remaining portion of that Interest Amount shall also not be due and payable.

The non-payment of any Interest Amount (or any part thereof) in accordance with the provisions set out above shall not constitute a default for any purpose on the part of the Issuer. Interest Amounts which the Issuer has elected not to pay or which the Issuer is not obliged to pay will never become due and are non-cumulative, and no Interest Amount (or any part thereof) which has not been paid (or any amount in lieu thereof) shall be payable in respect of the Additional Tier 1 Notes thereafter, whether in a winding-up, curatorship or administration of the Issuer or otherwise.

The non-payment of any Relevant Interest Amount in accordance with the above provisions shall not impose any other restrictions on the Issuer.

Any actual or anticipated non-payment of interest on Additional Tier 1 Notes in accordance with the above provisions will likely have an adverse effect on the market price of such Additional Tier 1 Notes. In addition, as a result of the interest payment provisions of the Additional Tier 1 Notes, the market price of Additional Tier 1 Notes may be more volatile than the market prices of other securities on which interest accrues that are not subject to such provisions and may be more sensitive generally to adverse changes in the Issuer's financial condition.

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## THE BANKING SECTOR IN SOUTH AFRICA

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The South African banking system is well developed and effectively regulated, comprising a central bank, several large, financially strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have also established operations in South Africa over the past decade. The Government is a subscriber to the IMF and World Bank regulations and policies. South African banks are regulated by the SARB. South Africa has implemented the Basel III framework through amendments to the Regulations Relating to Banks which became effective on 1 January 2013. South Africa is a member of the International Liaison Group of the BCBS. The South African banking regulator actively participates in international regulatory and supervisory standard-setting forums at which it is represented and provides input into the continued refinement of the supervisory framework in terms of Basel III.

The National Payment System Act, 1998 was introduced to bring the South African financial settlement system in line with international practice and systematic risk management procedures. The Payment Association of South Africa, under the supervision of the SARB, has facilitated the introduction of payment clearing house agreements. It has also introduced agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in inter-bank settlement. These developments have brought South Africa in line with international inter-bank settlement practice. Electronic banking facilities are extensive, with a nationwide network of automatic teller machines and internet banking being available.

### **Regulation**

Financial regulation legislation in South Africa is increasingly following international best practice through the accords of international bodies such as the Bank of International Settlements ("**BIS**"); the International Organization of Securities Commissions; and the International Association of Insurance Supervisors. Banks in South Africa are governed by various Acts and legislation, most significantly the Banks Act, which is primarily based on similar legislation in the United Kingdom, Australia and Canada.

### **Twin peaks model of financial regulation**

The Government issued a policy paper on 1 February 2013 titled "*Implementing a twin peaks model of financial regulation in South Africa*", which followed the original policy paper issued on 23 February 2011, "*A Safer Financial Sector to Serve South Africa Better*". These documents enunciated Government's strategic regulatory objectives. The documents identified four policy priorities to reform the financial sector, namely: financial stability; consumer protection and market conduct; expanding access of financial services through inclusion; and combating financial crime.

The "twin-peaks" approach to financial sector regulation is primarily aimed at the enhancement of systemic stability, improving market conduct regulation, sound micro- and macro prudential regulation and the strengthening of the operational independence, governance and accountability of regulators. The perimeters of regulation will continue to be expanded to cover all sources of systemic risk, the regulation of all private pools of capital (for example, hedge funds and over-the-counter derivatives) and unregulated financial activities such as the functioning of credit rating agencies (now regulated by the Credit Rating Services Act, 2012).

The FSR Act, which was signed into law on 21 August 2017 and which commenced (with the exception of a couple of transitional periods) on 1 April 2018, was the first in a series of bills that gave effect to the Government's decision to implement the "twin-peaks" model of financial regulation with a view to ensuring that the sector is safer and more effective.

The FSR Act reflects the Government's undertaking to eliminate lending malpractices, protect customers and reduce systemic risk through increased market conduct regulation. The FSR Act established two financial sector regulators, namely the FSCA, which regulates market conduct with a purview over the full range of financial services related matters (such as the regulation of bank charges) and the PA which is responsible for the oversight of the safety and soundness of banks, insurers and financial conglomerates. The FSCA is mandated to protect customers of financial services, improve the way in which financial service providers conduct their business, ensure that the integrity and efficiency of the financial markets is maintained, and promote effective financial consumer education.

The objective of the PA is to promote and enhance the safety and soundness of financial institutions that provide financial products, market infrastructures and payment systems to protect financial customers, including depositors, against the risk that those financial institutions may fail to meet their obligations.

The current legislative framework that underpins market conduct and consumer protection includes the following legislation: Financial Advisory and Intermediary Services Act, 2002, the Consumer Protection Act, 2008; the National Credit Act, 2005; the National Credit Amendment Act, 2014 and 2019; the Protection of Personal Information Act, 2013 as well as a comprehensive set of principles relating to Treating Customers Fairly (an outcomes based regulatory and supervisory approach designed to ensure that regulated financial institutions deliver specific, clearly set out fairness outcomes for financial customers).

The Government seeks to ensure financial stability through macro prudential regulation in line with international standards and measures including: improving the quality of capital; reducing pro-cyclicality; setting leverage and liquidity ratios; and issuing compensation guidelines. It further requires swift regulatory action to prevent contagion and proposes a more intense, intrusive and effective form of regulation. Government has commenced with the process of implementing regulations that will eventually be expanded to cover all sources of systemic risk including the regulation of all private pools of capital. In this regard, the Minister of Finance signed into law the Financial Markets Act Regulations (the "**FMA Regulations**") on 9 February 2018. The FMA Regulations provide the framework for regulation of over-the-counter derivative transactions in South Africa and the FSCA conduct standards, published in connection with the FMA Regulations, set out the reporting requirements and code of conduct for over-the-counter derivative providers. On 2 June 2020 the FSCA and PA published Joint Standard 2 of 2020, dealing with margin requirements for non-centrally cleared OTC derivative transactions, which will come into effect on a date to be determined by the FSCA and PA. The objectives of the standard include achieving consistent pricing across the OTC derivatives market and international compliance. As at the date of this Risk Factor & Other Disclosures Schedule, the FSCA and PA have not yet determined the effective date of the standard.

## **Anti-money laundering regulations**

The Government has identified the combating of financial crime as a policy priority. As a result thereof, South Africa has a well-established anti-money laundering ("AML")/Combating the Financing of Terrorism ("CFT") legislative framework which includes but is not limited to the FICA and the Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004. The Mutual Evaluation Report issued by the Financial Action Task Force, (an inter-governmental AML policy-making and standards setting body) in 2009 confirmed that South Africa has demonstrated a strong commitment to implementing AML/CFT systems facilitated by close cooperation and coordination amongst a variety of government departments and agencies. The Mutual Evaluation Report also stated that the South African authorities have sought to construct a system which uses, as its reference, the relevant United Nations Security Council Conventions and the international standards as set out by the Financial Action Task Force, and that the South African government also recognises the importance of being able to effectively respond to international instruments such as sanctions resolutions.

The PA strives to maintain an effective compliance framework and operational capacity to supervise compliance by banks with AML/CFT standards. The PA (previously the Banking Supervision Department) regularly conducts FICA compliance inspections of the accountable institutions that it supervises, and the scope of these visits would include the assessment of compliance with FICA guidance notes, directives and circulars. The SARB is empowered to conduct these inspections and perform other supervisory duties by virtue of section 45 of FICA.

Flowing from these responsibilities, PA conducts AML/CFT inspections to assess whether all of the major banks in the South African market have adequate and effective AML/CFT controls in place to comply with the requirements of FICA. As part of its mandate the SARB through the PA may (and has in the past) imposed administrative sanctions and directives to implement remedial action on banks whose AML/CFT frameworks are found to have deficiencies. In this regard, in September 2019, SBSA was furnished with an administrative sanction in the amount of ZAR 30 million (ZAR 7.5 million of which is suspended for a period of three years), for not complying with suspicious and unusual transaction reporting deadlines prescribed by the regulations issued in terms of the FICA. This sanction was accompanied with a confirmation that there had been no indication that SBSA has facilitated any transactions involving money laundering or the financing of terrorism. SBSA remediated all inspection findings by the 31 December 2019 deadline, and has requested confirmation of closure from the PA. SBSA remains committed to complying with all its regulatory requirements.

SBG and SBSA are committed to and supports global efforts to combat money laundering and terrorist financing. Consequently, SBG and SBSA have established and adopted policies and procedures to assist it to comply with money laundering and terrorist financing control requirements in each jurisdiction in which it operates and to ensure the recognition, investigation and reporting of suspicious activity to the relevant authorities. SBG and SBSA also continue to take measures to effect enhancements to its processes in order to address global AML/CFT risks.

## **SARB**

SARB is responsible for bank regulation and supervision in South Africa with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole. The SARB holds various international memberships including the G-20, the IMF, the BIS and the Committee of Central Bank Governors in the Southern African Development Community.

The SARB serves on various BIS committees including the BCBS and the Committee on Payments and Settlement Systems. The SARB performs its function of bank regulation and supervision through the PA, which issues banking licences to institutions and monitors their activities under the applicable legislation. The PA has extensive regulatory and supervisory powers. Every bank is obliged to furnish certain prescribed returns to the PA in order to enable the banking regulator to monitor compliance with the formal, prudential and other requirements imposed on banks in terms of, *inter alia*, the Banks Act and the Regulations Relating to Banks. Such regulations may be, and are, amended from time to time in order to provide for amendments and additions to the prescribed returns, and the frequency of submission thereof. The PA acts with relative autonomy in executing its duties, but has to report annually to the Minister of Finance, who in turn has to table this report in Parliament.

In terms of the Banks Act, the PA, among other things, supervises banking groups on a consolidated basis from the bank controlling company downwards. In this regard, controlling companies of banks are required to submit, on a quarterly basis, a consolidated supervision return which includes information on all of the entities within that banking group that potentially constitute a material or significant risk to that banking group. The return covers issues such as group capital adequacy, group concentration risk, intra-group exposures and group currency risk. Moreover, a bank controlling company is also required to furnish the regulator, on a quarterly basis, with bank consolidated and group consolidated information which includes a detailed balance sheet, an off-balance sheet activities return and an income statement.

A banking group is required to satisfy the regulator's requirements in respect of the adequacy and effectiveness of its management systems for monitoring and controlling risks, including those in its offshore operations, and the integrity of its accounting records and systems. Banking groups are required to comply with the provisions of the Banks Act as well as with all financial and prudential requirements, including minimum capital and liquidity requirements, which are actively monitored by the banking regulator. In addition, banking groups have to satisfy the banking regulator's requirements pertaining to issues such as overall financial soundness worldwide, including the quality of its loan assets and the adequacy of its provisioning policy. As part of its supervisory process, the banking regulator undertakes on-site and off-site examinations. The banking supervisor seeks to apply the Core Principles for Effective Banking Supervision as issued by the BCBS.

The Issuer, as a banking group, is supportive of the SARB's objectives and endorses improvements in risk management and governance practices as an active participant in the new regulatory landscape. The same approach is also applied in respect of the Issuer's cooperation with other regulatory authorities and much effort and resources are dedicated in a cost efficient manner in order to reap maximum benefits emanating from the implementation of best practice and the resultant enablement of its global business activities.

Currently the banking industry works within a three tiered framework:

- (a) the Banks Act (effecting changes to the Banks Act requires Parliamentary approval);
- (b) the Regulations Relating to Banks (changes to the Regulations Relating to Banks require the approval of the South African Minister of Finance); and
- (c) Banks Act circulars, directives and guidance notes.
  - (i) Circulars may be issued by the PA to furnish banks with guidelines regarding the application and interpretation of the provisions of the Banks Act;

- (ii) Guidance notes may be issued by the PA in respect of market practices or market and industry developments; and
- (iii) Directives may be issued by the PA, after consultation with the affected parties, to prescribe certain processes or procedures to be followed by banks with regard to certain processes or procedures necessary in the administration of the Banks Act. It is obligatory for banks to comply with its prescriptions.

The Banks Act and Regulations Relating to Banks, circulars, directives and guidance notes issued by the PA set out the framework governing the formal relationship between South African banks and the PA. Pursuant to this legislation, SBSA and representatives of the PA meet at regular bilateral meetings (between SBSA's Board of Directors and the PA), annual trilateral meetings (between SBSA's Board of Directors, the PA and SBSA's auditors) and prudential meetings (which usually include meetings with risk management executives and the heads of each of SBSA's business divisions). SBSA also engages in frequent on-site reviews with the PA's supervisory team which cover a range of topics including an assessment of SBSA's performance against its peer group.

The prudential regulation and supervision of banks furthermore assists the SARB in its pursuit of financial system stability. Similar to other central banks, the SARB is placing increased emphasis on macro-prudential aspects of financial stability.

In response to fundamental weaknesses in international financial markets, revealed by the 2008 global financial crisis, a large volume of regulatory and supervisory standards and requirements were issued by international standard-setting bodies such as the BCBS. The incorporation of the changes and enhancements into the domestic regulatory framework requires an ongoing review of South African banking legislation and regulatory requirements in order to ensure the appropriate alignment of the regulatory framework with international standards. In this regard, both the Banks Act and the Regulations Relating to Banks are amended from time to time.

SBSA views its relationship with the PA as being of the utmost importance and it is committed to fostering sound banking principles for the industry as a whole. In this regard, SBSA is a member of the Banking Association of South Africa, whose role is to establish and maintain the best possible platform on which banking groups can conduct competitive, profitable and responsible banking.

### **COVID-19 coronavirus pandemic**

In response to the Covid-19 pandemic, the South African Government declared a national state of disaster under the Disaster Management Act, 2002 on 15 March 2020. It has implemented a number of measures to contain the spread, and mitigate the impact, of COVID-19 in South Africa. The South African Government has implemented a risk-adjusted phased lockdown approach comprising five alert levels which are determined with reference to the risk and infection rate nationally, and in each province, district and metropolitan area. Each alert level denotes the level of requisite action and restrictions needed to contain the spread of COVID-19. South Africa commenced with the highest alert level - alert level 5 - of the lockdown approach at midnight on 26 March 2020 which restricted the movement of all persons in South Africa other than for purposes of essential services. With effect from 1 May 2020, alert level 4 is in effect which permits limited level of economic activity and the easing of some restrictions on movement.

The South African Government, as well as business, have called on the banking industry to continue to extend credit to sectors in need, particularly households and small businesses, and to provide relief

measures to reduce the strain on these sectors in an effort to sustain the local economy and maintain financial stability in South Africa. The PA has issued a number of directives to provide temporary relief to banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as "banks") during this time of financial stress, in a manner that ensures South Africa's continued compliance with the relevant internationally agreed capital framework. The measures implemented through these directives are aimed at:

- (a) reducing the minimum liquidity cover ratio of banks from 100 per cent. to 80 per cent. with effect from 1 April 2020 to such time as the PA directs in writing when it is of the view that financial markets have normalised and subject to any appropriate phase-in arrangements specified by the PA in writing to restore the minimum liquidity cover ratio to 100 per cent. (Directive D1/2020 issued in terms of section 6(6) of the Banks Act);
- (b) reducing the currently specified minimum requirement of capital and reserve funds (including Pillar 2A and capital conservation buffers) to be maintained by banks, in order to provide temporary capital relief to enable banks to counter economic risks to the financial system as a whole and to individual banks (Directive D2/2020 issued in terms of section 6(6) of the Banks Act);
- (c) supporting COVID-19 relief initiatives, such as payment holidays offered by banks in order to provide relief to certain borrowers in the retail and corporate sector, by providing temporary relief on the minimum capital requirements for banks relating to credit risk during this stress period. These measures are effected through an amendment to existing Directive 7 of 2015 and are intended to provide relief to banks by enabling banks to continue to extend credit to the real economy without the need for higher capital requirements. It is the PA's intention to reinstate the requirements of Directive 7 of 2015 in full, but subject to any transitional arrangements that may apply, after the impact of COVID-19 has subsided and economic conditions have normalised (Directive D3/2020 issued in terms of section 6(6) of the Banks Act).

In addition to the abovementioned directives, the PA published a Guidance Note recommending that banks do not make any distributions of dividends on ordinary shares and payment of any cash bonuses to executive officers and material risk takers during this period of uncertainty so as to facilitate banks preserving capital resources to absorb losses that may result from an economic downturn.

In April 2020, President Cyril Ramaphosa announced a ZAR 500 billion fiscal support package. The fiscal support package includes a ZAR 200 billion loan guarantee scheme which works on the principle that profits and losses are ultimately shared between the South African Government and participating banks. The scheme will receive all "profits" on the loans - i.e. the difference at which banks lend the money and their funding costs, plus a guarantee fee. These profits will be used to offset any losses that the scheme makes. If the scheme suffers further losses, these will be absorbed by the banks themselves, capped at 6 per cent of the size of the loan. Banks are not, however, obliged to extend COVID-19 loans, and those that do will use their normal risk-evaluation and credit-application processes.

### **Current Environment**

As at 31 February 2020, there were 19 registered banks, 4 mutual banks, 4 co-operative banks, 15 local branches of foreign banks and 30 representative offices of foreign banks in South Africa (Source: SARB website). In addition, as at February 2020, the South African banking sector had total

assets of ZAR6 trillion according to statistics published by the SARB (Source: SARB monthly trends publication, February 2020) The five largest banks by assets (Source: BA900, 31 December 2017) were Absa Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited

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## **SOUTH AFRICAN EXCHANGE CONTROL**

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*Capitalised terms used in this section headed "South African Exchange Control" shall bear the same meanings as used in the relevant Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

*The information below is intended as a general guide to the position under the Exchange Control Regulations as at the date of this Risk Factor & Other Disclosures Schedule. The contents of this section headed "South African Exchange Control" do not constitute exchange control advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.*

### **Programme Memorandum**

The Programme Memorandum (as read together with the Disclosure Schedules) does not require the prior approval of the Financial Surveillance Department of the South African Reserve Bank (the "**Exchange Control Authorities**") in terms of the Exchange Control Regulations.

### **Issue of Notes**

The issue of a particular Tranche of Notes may, depending on the type of Notes in that Tranche, require the prior written approval of the Exchange Control Authorities in terms of the Exchange Control Regulations.

In particular, in terms of Rule 3.12(c) of the JSE Debt Listings Requirements, "*where the ... Issuer issues listed [Notes] that will pay higher than the interest rate to be paid/discounted in terms of exchange control policy, and where there will be foreign participation cross-border funding, the ... Issuer is required to obtain prior [Exchange Control Authorities] approval/directive in respect of the issue. Exchange control policy allows interest to be paid up to the prime overdraft rate (predominant rate) plus 3% per annum or as amended from time to time*".

Dealings in the Notes and the performance by the Issuer of its obligations under the Notes and the applicable Terms and Conditions may be subject to the Exchange Control Regulations.

### **Non-South African resident Noteholders and emigrants from the Common Monetary Area**

#### **Emigrant Blocked Rand**

Emigrant Blocked Rand may be used for the subscription for or purchase of Notes. Any amounts payable by the Issuer in respect of the Notes subscribed for or purchased with Emigrant Blocked Rand may not, in terms of the Exchange Control Regulations, be remitted out of South Africa or paid into any non-South African bank account.

#### **Emigrants from the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are emigrants from South Africa, the Republic of Namibia, the Kingdom of Lesotho and the Kingdom of Swaziland (the "**Common Monetary Area**") will be endorsed "*non-resident*". Such restrictively endorsed Individual Certificates shall be deposited with an authorised foreign exchange dealer controlling such emigrant's blocked assets.

In the event that a Beneficial Interest in Notes is held by an emigrant from the Common Monetary Area through the Central Depository, the securities account maintained for such emigrant by the relevant Participant will be designated as an "*emigrant*" account. All payments in respect of subscriptions for Notes by an emigrant from the Common Monetary Area, using Emigrant Blocked Rands, must be made through the Authorised Dealer in foreign exchange controlling the blocked assets.

Any payments of interest and/or principal due to a Noteholder who is an emigrant from the Common Monetary Area will be deposited into such emigrant Noteholder's Emigrant Blocked Rand account, as maintained by an authorised foreign exchange dealer. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Exchange Control Regulations.

### **Non-residents of the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are not resident in the Common Monetary Area will be endorsed "*non-resident*". In the event that a Beneficial Interest in Notes is held by a non-resident of the Common Monetary Area through the Central Depository, the securities account for such Noteholder by the relevant Participant will be designated as a "*non-resident*" account.

It will be incumbent on any such non-resident Noteholder to instruct the non-resident's nominated or authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Notes are to be dealt with. Such funds may, in terms of the Exchange Control Regulations, be remitted abroad only if the relevant Notes are acquired with foreign currency introduced into South Africa and provided that the relevant Individual Certificate has been endorsed "*non-resident*" or the relevant securities account has been designated as a "*non-resident*" account, as the case may be.

### **Bearer Notes**

The disposal or acquisition of or dealing in Bearer Notes is subject to the prior written approval of the Minister of Finance (or the Person authorised by the Minister of Finance) in accordance with Regulation 15 of the Exchange Control Regulations.

### **Order Notes**

Any Order Notes issued to Noteholders who are emigrants from the Common Monetary Area will be endorsed in accordance with the applicable provisions of the Exchange Control Regulations. Any Order Notes issued to Noteholders who are emigrants from the Common Monetary Area will be subject to the applicable provisions of the Exchange Control Regulations.

Any Order Notes issued to Noteholders who are not resident in the Common Monetary Area will be endorsed in accordance with the applicable provisions of the Exchange Control Regulations. Any Order Notes issued to Noteholders who are not resident in the Common Monetary Area will be subject to the applicable provisions of the Exchange Control Regulations.

***As at the date of this Risk Factor & Other Disclosures Schedule, no exchange control approval is required in respect of the Programme and/or the Notes.***

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## SOUTH AFRICAN TAXATION

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*Capitalised terms used in this section headed "South African Taxation" shall bear the same meanings as used in the relevant Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.*

*The comments below are intended as a general guide to the relevant tax laws of South Africa as at the date of this Risk Factor & Other Disclosures Schedule. The contents of this section headed "South African Taxation" do not constitute tax advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.*

### **Withholding Tax**

Under current taxation law in South Africa, all payments made under the Notes to South African tax-resident Noteholders will be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa.

A withholding tax on South African sourced interest (see the section headed "*Income Tax*" below) paid to or for the benefit of a "*foreign person*" (being any person that is not a South African tax-resident) applies at a rate of 15% of the amount of interest in terms of section 50A-50H of the Income Tax Act, 1962 (the "**Income Tax Act**"). The withholding tax could be reduced by the application of relevant double taxation treaties.

The legislation exempts, inter alia, from the withholding tax on interest any amount of interest paid by a bank as defined in the Banks Act, 1990 (the "**Banks Act**") to a foreign person. It is envisaged that this exemption would apply to the interest payments made to foreign Noteholders. The withholding tax legislation also provides an exemption for interest paid to a foreign person in respect of any debt listed on a "*recognised exchange*" as defined in paragraph 1 of the eighth schedule of the Income Tax Act. The JSE Limited (the "**JSE**") would qualify as such an exchange, and therefore, subject to any legislative changes, the interest paid on the Notes listed on the JSE will also be exempt from the withholding tax on interest. A foreign person will also be exempt from the withholding tax on interest if:

- (a) that foreign person is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is paid; or
- (b) the debt claim in respect of which that interest is paid is effectively connected with a permanent establishment of that foreign person in South Africa, if that foreign person is registered as a taxpayer in South Africa.

Foreign persons are subject to normal South African income tax on interest sourced in South Africa unless exempted under Section 10(1)(h) of the Income Tax Act (see the section headed "*Income Tax*" below).

## **Securities Transfer Tax (STT)**

No STT is payable on the issue or transfer of Notes (bonds) under the Securities Transfer Tax Act, 2007, because they do not constitute securities (as defined) for the purposes of that Act.

## **Value-Added Tax (VAT)**

No VAT is payable on the issue or transfer of Notes. Notes (bonds) constitute "*debt securities*" as defined in section 2(2)(iii) of the South African Value-Added Tax Act, 1991 (the "**VAT Act**"). The issue, allotment, drawing, acceptance, endorsement or transfer of ownership of a debt security is a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act.

Commissions, fees or similar charges raised for the facilitation, issue, allotment, drawing, acceptance, endorsement or transfer of ownership of Notes (bonds) that constitute "*debt securities*" will however be subject to VAT at the applicable prevailing standard rate, except where the recipient is a non-resident as contemplated below.

Services (including exempt financial services) rendered to non-residents who are not in South Africa when the services are rendered, are subject to VAT at the zero rate in terms of section 11(2)(l) of the VAT Act.

## **Income Tax**

Under current taxation law effective in South Africa, a "*resident*" (as defined in section 1 of the Income Tax Act) is subject to income tax on his/her worldwide income. Accordingly, all Noteholders who are "*residents*" of South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any interest earned pursuant to the Notes. Non-residents of South Africa are subject to income tax on all income derived from a source, or deemed to be from a source, within South Africa (subject to domestic exemptions or relief in terms of an applicable double taxation treaty).

Interest income is from a South African source if that amount:

- (a) is incurred by a South African tax resident, unless the interest is attributable to a permanent establishment which is situated outside of South Africa; or
- (b) is derived from the utilisation or application in South Africa by any person of any funds or credit obtained in terms of any form of "*interest-bearing arrangement*".

The Issuer is a South African tax-resident and the Notes will constitute an "*interest-bearing arrangement*". Accordingly, the interest paid to the Noteholders will be from a South African source and subject to South African income tax unless such interest is exempt from income tax under section 10(1)(h) of the Income Tax Act (see below).

Under section 10(1)(h) of the Income Tax Act, interest received by or accruing to a Noteholder who, or which, is not a resident of South Africa during any year of assessment is exempt from income tax, unless:

- (a) that person is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve month period preceding the date on which the interest is received or accrued by or to that person; or

- (b) the debt from which the interest arises is effectively connected to a permanent establishment of that person in South Africa.

Interest as defined in section 24J of the Income Tax Act (including the premium or discount) may qualify for the exemption under section 10(1)(h) of the Income Tax Act. If a Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, exemption from, or reduction of any South African income tax liability may be available under an applicable double taxation treaty.

Purchasers are advised to consult their own professional advisers as to whether the interest income earned on the Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation treaty.

Under section 24J of the Income Tax Act, broadly speaking, any discount or premium to the Nominal Amount of a Note is treated as part of the interest income on the Note. Section 24J of the Income Tax Act deems interest income to accrue to a Noteholder on a day-to-day basis until that Noteholder disposes of the Note. The day-to-day basis accrual is determined by calculating the yield to maturity and applying this rate to the capital involved for the relevant tax period.

Section 24JB of the Income Tax Act contains specific provisions relating to the fair value taxation of financial instruments for "*covered persons*" (as defined in section 24JB of the Income Tax Act). Noteholders should seek advice as to whether this provision may apply to them.

Purchasers of Notes are advised to consult their own professional advisors to ascertain whether the abovementioned provisions may apply to them.

### **Capital Gains Tax**

Capital gains and losses of residents of South Africa on the disposal of Notes are subject to capital gains tax, unless the Notes are purchased for re-sale in the short term as part of a scheme of profit making, in which case any gain or loss would be subject to income tax. Any discount or premium on acquisition which has already been treated as interest for income tax purposes, under section 24J of the Income Tax Act will not be taken into account when determining any capital gain or loss. If the Notes are disposed of or redeemed prior to or on maturity, an "adjusted gain on transfer or redemption of an instrument", or an "adjusted loss on transfer or redemption of an instrument", as contemplated in section 24J of the Act, must be calculated. Any such adjusted gain or adjusted loss is deemed to have been incurred or to have accrued in the year of assessment in which the transfer or redemption occurred. The calculation of the adjusted gain or adjusted loss will take into account, *inter alia*, all interest which has already been deemed to accrue to the Noteholder over the term that the Note has been held by the Noteholder. Under section 24J(4A) of the Income Tax Act, where an adjusted loss on transfer or redemption of an instrument realised by a holder of a Note includes any amount representing interest that has previously been included in the income of the holder, the amount will qualify as a deduction from the income of the holder during the year of assessment in which the transfer or redemption takes place and will not give rise to a capital loss.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to Notes disposed of by a person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that person in South Africa.

To the extent that a Noteholder constitutes a "*covered person*" (as defined in section 24JB of the Income Tax Act) and section 24JB applies to the Notes, the Noteholder will be taxed in accordance with the provisions of section 24JB of the Act and the capital gains tax provisions would not apply.

Purchasers are advised to consult their own professional advisers as to whether a disposal of Notes will result in capital gains tax consequences.

### **Conversion of Additional Tier 1 Notes and Write-off of Tier 2 Notes and Additional Tier 1 Notes**

It should be noted that the tax consequences to the holders of Additional Tier 1 Notes of the compulsory Conversion of Additional Tier 1 Notes into Issuer Ordinary Shares or the compulsory Write-off of Tier 2 Notes or Additional Tier 1 Notes, upon the occurrence of a Non-Viability Event, are complicated. A summary of some of the possible tax consequences of the compulsory Conversion of Additional Tier 1 Notes or the compulsory Write-off of Tier 2 Notes and Additional Tier 1 Notes is set out below. Prospective subscribers for or purchasers of Tier 2 Notes and/or Additional Tier 1 Notes must consult their professional advisers in this regard.

#### **Conversion of Additional Tier 1 Notes**

To the extent that Additional Tier 1 Notes are Converted into Issued Ordinary Shares, the Conversion may potentially be regarded as a disposal for tax purposes, resulting in a tax consequences for the Noteholder.

Normal tax principles should be applied in determining whether the taxpayer will be subject to capital gains tax or normal income tax on conversion of Additional Tier 1 Notes and write-off of Tier 1 Notes and Additional Tier 1 Notes into Issued Ordinary Shares.

The "*conversion*" of an asset is specifically included in the definition of a "*disposal*" of an asset in paragraph 11 of the Eighth Schedule of the Income Tax Act and capital gains tax consequences may arise to the Noteholder. Alternatively, normal income tax consequences may arise if the Note is held on revenue account. Noteholders should consult their professional advisers to this regard. The South African Revenue Service, in its Capital Gains Tax Guide, has specifically indicated that there will be an adjusted gain or loss arising on the conversion of a debenture (or a debt instrument such as the Additional Tier 1 Notes). This adjusted gain or loss is deemed to accrue in the year of transfer or redemption.

The Capital Gains Tax Guide indicates that, even if the "*right*" to convert a debenture (or a debt instrument such as the Additional Tier 1 Notes) into an ordinary share is acquired upfront, a capital gain or loss will have to be determined at the time of conversion. A similar consequence may arise to the extent that the Additional Tier 1 Notes are held on revenue account.

#### **Write-off of Tier 2 Notes and Additional Tier 1 Notes**

To the extent that Tier 2 Notes or Additional Tier 1 Notes are Written-off (on the basis that the Issuer is no longer obliged to pay the relevant amount to the Noteholders of the Tier 2 Notes or Additional Tier 1 Notes (as applicable)) the event is a "*disposal*" for capital gains tax purposes or a realisation for normal income tax purposes. If a debt is waived or reduced as envisaged in the Income Tax Act, this may result in a loss for the Noteholders. The normal principles of capital and revenue are to be applied in determining whether any such loss should be subject to normal income tax or capital gains tax in terms of the Income Tax Act. In addition, specific provisions in the Income Tax Act may apply

to the waiver or reduction of debt. In this regard, Noteholders must consult their own tax advisers to confirm the specific tax treatment of the waiver or reduction of debt.

## **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including South Africa) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*General Terms and Conditions—Further Issues*" and "*Additional Tier 1 Terms and Conditions—Further Issues*" of the Programme Memorandum (as read together with the Disclosure Schedules)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, the Issuer will not be required to pay additional amounts as a result of the withholding.

## **Definition of Interest**

The references to "*interest*" above mean "*interest*" as understood in South African tax law. The statements above do not take any account of any different definitions of "*interest*" or "*principal*" which may prevail under any other law or which may be created by the relevant Terms and Conditions of the Notes or any related documentation.

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## SUBSCRIPTION AND SALE

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

### **Selling restrictions**

#### ***South Africa***

Each Dealer has (or will have) represented, warranted and agreed that it (i) will not offer Notes for subscription, (ii) will not solicit any offers for subscription for or sale of the Notes, and (iii) will itself not sell or offer the Notes in South Africa in contravention of the Companies Act, Banks Act, Exchange Control Regulations and/or any other Applicable Laws and regulations of South Africa in force from time to time.

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that it will not make an "offer to the public" (as such expression is defined in the Companies Act, and which expression includes any section of the public) of Notes (whether for subscription, purchase or sale) in South Africa. The Programme Memorandum (as read together with the Disclosure Schedules) does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act.

#### *Offers not deemed to be offers to the public*

Offers for subscription for, or sale of, Notes are not deemed to be an offer to the public if:

- (a) to certain investors contemplated in section 96(1)(a) of the Companies Act; or
- (b) the total contemplated acquisition cost of Notes, for any single addressee acting as principal, is equal to or greater than ZAR1 000 000, or such higher amount as may be promulgated by notice in the Government Gazette of South Africa pursuant to section 96(2)(a) of the Companies Act.

Information made available in the Programme Memorandum, or any document incorporated therein by reference should not be considered as "advice" as defined in the Financial Advisory and Intermediary Services Act, 2002.

The issue of a particular Tranche of Notes may, depending on the type of Notes in that Tranche, require the prior written approval of the Exchange Control Authorities in terms of the Exchange Control Regulations (see the section of this Risk Factor & Other Disclosures Schedule headed "*South African Exchange Control*").

#### ***United States of America***

##### *Regulation S Category 2*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain

transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer and its affiliates will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Prospectus as completed by the Applicable Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) *Approved prospectus*: if the Applicable Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus which has subsequently been completed by the Applicable Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Applicable Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (c) *Fewer than 100 offerees*: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "*offer of Notes to the public*" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

### ***United Kingdom***

Each Dealer has represented, warranted and agreed, and each new Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) ***No deposit taking***: in relation to any Notes having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**General**

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to agree that:

- (a) it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in each jurisdiction in which it purchases, subscribes or procures the subscription for, offers or sells Notes in that Tranche or has in its possession or distributes the Programme Memorandum (as read together with the Disclosure Schedules) and will obtain any consent, approval or permission required by it for the purchase, subscription, offer or sale by it of any Notes in that Tranche under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscription, offers or sales; and
- (b) it will comply with such other or additional restrictions as the Issuer and such Dealer agree and as are set out in the Applicable Pricing Supplement relating to the relevant Tranche of Notes.

Neither the Issuer nor any of the Dealers represent that Notes may at any time lawfully be subscribed for or sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder or assumes any responsibility for facilitating such subscription or sale.

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## **SETTLEMENT, CLEARING AND TRANSFER OF NOTES**

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*Capitalised terms used in this section headed "Settlement, Clearing and Transfer of Notes" shall bear the same meanings as used in the relevant Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.*

### **Notes listed on the JSE and/or held in the Central Depository**

Each Tranche of Notes which is listed on the JSE in uncertificated form will be held in the Central Depository. A Tranche of unlisted Notes may also be held in the Central Depository.

### **Clearing systems**

Each Tranche of Notes listed on the JSE and/or held in the Central Depository will be issued, cleared and settled in accordance with the Applicable Procedures for the time being of the JSE and the Central Depository through the electronic settlement system of the Central Depository. Such Notes will be cleared by Participants who will follow the electronic settlement procedures prescribed by the JSE and the Central Depository.

The Central Depository has, as the operator of an electronic clearing system, been appointed by the JSE to match, clear and facilitate the settlement of transactions concluded on the JSE. Subject as aforesaid each Tranche of Notes which is listed on the JSE will be issued, cleared and transferred in accordance with the Applicable Procedures and the relevant Terms and Conditions, and will be settled through Participants who will comply with the electronic settlement procedures prescribed by the JSE and the Central Depository. The Notes may be accepted for clearance through any additional clearing system as may be agreed between the JSE, the Issuer and the Dealer(s).

### **Participants**

The Central Depository maintains central securities accounts only for Participants. As at the date of this Risk Factor and other Disclosures Schedule, the Participants which are approved by the Central Depository, in terms of the rules of the Central Depository, are Citibank NA, Johannesburg branch, FirstRand Bank Limited (RMB Custody and Trustee Services), Nedbank Limited, The Standard Bank of South Africa Limited, Standard Chartered Bank, Johannesburg branch, Société Générale, Johannesburg branch and the SARB. Euroclear, as operator of the Euroclear System, and Clearstream Banking will settle off-shore transfers in the Notes through their Participants.

### **Settlement and clearing**

Participants will be responsible for the settlement of scrip and payment transfers through the Central Depository, the JSE and the SARB.

While a Tranche of Notes is held in its entirety in the Central Depository, each relevant Participant's nominee or the individual Noteholder, where the Participant has set up a central securities account for such Noteholder, will be named in the Register as the Noteholder of the Notes in that Tranche. All amounts to be paid in respect of Notes held in the Central Depository will be paid to the relevant Participants for the holders of Beneficial Interests in such Notes. In relation to each Person shown in the records of the Central Depository or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular Nominal Amount of Notes, a certificate or other document issued by

the Central Depository or the relevant Participant, as the case may be, as to the Nominal Amount of such Notes standing to the account of such Person shall be *prima facie* proof of such Beneficial Interest. Each relevant Participant's nominee or the individual Noteholder, where the Participant has set up a central securities account for such Noteholder (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Transfer Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

Payments of all amounts in respect of a Tranche of Notes which is listed on the JSE and/or held in the Central Depository will be made to the relevant Participants for the holders of Beneficial Interests in such Notes. Each of the persons reflected in the records of the Central Depository, as the holders of Beneficial Interests in Notes shall look solely to the Central Depository or the relevant Participant for such Person's share of each payment so made by (or on behalf of) the Issuer to, or for the order of, each Participant's nominee, as the registered Noteholder of such Notes.

### **Transfers and exchanges**

The Participants will maintain records of the Beneficial Interests in Registered Notes held in the Central Depository.

Subject to the Applicable Laws, title to Beneficial Interest held by clients of Participants indirectly through such Participants will pass on transfer thereof by electronic book entry in the securities accounts maintained by such Participants for such clients. Subject to the Applicable Laws, title to Beneficial Interests held by Participants directly through the Central Depository will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the Central Depository for such Participants. Beneficial Interests may be transferred only in accordance with the CSD Procedures.

Beneficial Interests may be exchanged for Notes represented by Individual Certificates in accordance with Condition 14.1(b) (*Transfer of Registered Notes represented by Individual Certificates*) of the General Terms and Conditions or Condition 15.2 (*Transfer of Registered Notes represented by Individual Certificates*) of the Additional Tier 1 Terms and Conditions.

### **Records of payments, trust and voting**

Neither the Issuer nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, Beneficial Interests, or for maintaining, supervising or reviewing any records relating to Beneficial Interests. Neither the Issuer nor the Paying Agent nor the Transfer Agent will be bound to record any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Note may be subject. Holders of Beneficial Interests vote in accordance with the Applicable Procedures.

### **JSE Debt Guarantee Fund Trust and/or the JSE Guarantee Fund**

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

**Notes listed on any Financial Exchange other than (or in addition to) the JSE**

Each Tranche of Notes which is listed on any Financial Exchange other than (or in addition to) the JSE will be issued, cleared and settled in accordance with the rules and settlement procedures for the time being of that Financial Exchange. The settlement and redemption procedures for a Tranche of Notes which is listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.

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