



NEDBANK LIMITED

(Incorporated with limited liability under registration number 1951/000009/06 in the Republic of South Africa)

ZAR40,000,000,000 DOMESTIC MEDIUM TERM NOTE PROGRAMME

Issue of ZAR50,000,000.00 Unsubordinated Inflation-Linked Notes due 7 December 2033

General

This document constitutes the Applicable Pricing Supplement relating to the issue of the Tranche of Unsubordinated Inflation-Linked Notes described herein ("the Notes" or "this Tranche" or "this Tranche of Notes").

This Applicable Pricing Supplement (including Annexure "A") must be read in conjunction with the consolidated Programme Memorandum, dated 24 May 2010, as supplemented by the Supplement, dated 3 June 2011, and as further amended and/or supplemented from time to time ("Programme Memorandum") prepared by Nedbank Limited ("Issuer") in connection with the Nedbank Limited ZAR40,000,000,000 Domestic Medium Term Note Programme ("Programme").

The original Programme Memorandum, dated 15 December 2003, was approved by The Bond Exchange of South Africa Limited on or about 10 December 2003 and the consolidated Programme Memorandum, dated 24 May 2010, was approved by the JSE Limited ("JSE") on or about 24 May 2010.

To the extent that there is any conflict or inconsistency between the provisions of this Applicable Pricing Supplement and the Programme Memorandum, the provisions of this Applicable Pricing Supplement shall prevail (see Item E below).

Any capitalised terms not defined in this Applicable Pricing Supplement shall (subject to Item E below) have the meanings ascribed to them in the section of the Programme Memorandum headed "Terms and Conditions of the Unsubordinated Notes, Tier 2 Notes and Tier 3 Notes" ("Ordinary Conditions").

References to any Condition in this Applicable Pricing Supplement are to that Condition of the Ordinary Conditions.

Amendments to the Banks Act, 1990

On 16 December 2010 the Basel Committee on Banking Supervision published the documents entitled "Basel Committee on Banking Supervision – Basel III: A global regulatory framework for more resilient banks and banking systems – December 2010 (rev June 2011)" and "Basel Committee on Banking Supervision – Basel III: International Framework for liquidity risk measurements, standards and monitoring – December 2010 [(rev June 2011)]" (such documents as supplemented and/or amended from time to time, being the "Basel III Accord").

The amended Regulations Relating to Banks (which came into operation on 1 January 2013) published as No. R. 1029 in *Government Gazette* No. 35950 of 12 December 2012 ("Regulations Relating to Banks") provide, among other things, for the partial implementation of the Basel III Accord in South Africa and the requirements with which specified categories of instruments and/or shares ("Capital Instruments") must comply in order for the proceeds of the issue thereof to qualify for inclusion in the regulatory capital of banks.

The Banks Amendment Act, 2013, published in *Government Gazette* No. 37144 of 10 December 2013, amended the Banks Act, 1990 to provide (together with the Regulations Relating to Banks) for the full implementation of the Basel III Accord in South Africa (such amended Banks Act, 1990, as thereafter supplemented and/or amended from time to time, being the "Banks Act").

Risk Factors and South African Taxation

The section of the Programme Memorandum headed "Risk Factors" ("Risk Factors") sets out certain investment considerations and risks.

Annexure "A" to this Applicable Pricing Supplement headed "Risk Factors and South African Taxation" ("Annexure "A") (i) supplements and updates certain of the Risk Factors insofar as such Risk Factors (and/or any additional risk factors) relate to the Basel III Accord and (ii) updates the section of the Programme Memorandum headed "South African Taxation" in respect of, among other things, the Notes.

Annexure "A" must be read in conjunction with the Programme Memorandum as at the Issue Date ("Current Programme Memorandum") and this Applicable Pricing Supplement. To the extent that there is any conflict or inconsistency between the provisions of Annexure "A" and the Current Programme Memorandum, the provisions of Annexure "A" shall prevail.

A.	DESCRIPTION OF THE NOTES	
1.	Issuer	Nedbank Limited
2.	Tranche Number	1
3.	Series Number	1

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4.	Status of Notes	Unsubordinated Notes (see Condition 5.1 (<i>Status of the Unsubordinated Notes</i>))
5.	Form of Notes	Registered Notes. The Notes in this Tranche are issued in registered uncertificated form and will be held in the Central Securities Depository
6.	Type of Notes	Inflation-Linked Notes
7.	Security	Unsecured
8.	Issue Date/First Settlement Date	20 February 2015
9.	Issue Price	192.45386362%
10.	Interest Basis	See Item C (<i>Inflation-linked Provisions</i>) below
11.	Redemption Basis	See Item C (<i>Inflation-linked Provisions</i>) below
12.	Change of Interest or Redemption Basis	Not Applicable
13.	Aggregate Principal Amount of this Tranche	ZAR50,000,000.00
14.	Specified Denomination (Principal Amount per Note)	ZAR1,000,000
15.	Calculation Amount	ZAR1,000,000
16.	Specified Currency	ZAR
B. PROGRAMME AMOUNT		
1.	Programme Amount as at the Issue Date	ZAR40,000,000,000
2.	Aggregate outstanding Principal Amount of all of the Notes issued under the Programme (including Notes issued under the Programme pursuant to the Previous Programme Memorandum) as at the Issue Date	ZAR35,958,000,000 excluding the aggregate Principal Amount of this Tranche of Notes and all other Tranches of Notes issued on the Issue Date specified in Item A(8) above.
C. INFLATION-LINKED PROVISIONS		
1.	Applicable Payment Date	For purposes of calculating the Interest Amount payable in respect of the Notes in this Tranche on an Interest Payment Date pursuant to Item C(7) below, all references in Item C below to "Applicable Payment Date" shall mean that Interest Payment Date. For purposes of calculating the Redemption Amount payable in respect of the Notes in this Tranche on the Redemption Date pursuant to Item D(6) (<i>Redemption</i>) below, all references in Item C below to "Applicable Payment Date" shall mean the Redemption Date.
2.	Relevant Calendar Month	That calendar month, contemplated in Item C(4) below (paragraph (a) or paragraph (b), as the case may be), in respect of which the Calculation Agent is required to determine the Reference CPI.
3.	CPI Index:	The CPI Index is the weighted average of the Consumer Price Index for the Relevant Calendar Month, as published by Statistics South Africa, which is referred to as "CPI – All items for metropolitan areas" in Statistical Release P0141.1; provided that following the calculation of (i) a Substitute CPI Index pursuant to Item C(3)(a) below or (ii) an Alternative Index pursuant to Item C(3)(b) below, as the case may be, all references in this Item C to "CPI Index" shall be construed as references to (i) that Substitute CPI Index or (ii) that Alternative Index, as the case may be.
(a)	Substitute Index	If (i) there is a delay in the publication of the CPI Index for the Relevant Calendar Month, and (ii) the CPI Index has not been discontinued (as contemplated in Item C(3)(b) below), then the Calculation Agent shall calculate a substitute CPI Index value (the "Substitute CPI Index") for the Relevant Calendar Month in accordance with paragraph (a) or

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		<p>paragraph (b) below, as the case may be.</p> <p>a) <u>One month delay or less in publication</u></p> <p>If there is a delay, for a period of one month or less, in the publication of the CPI Index for the Relevant Calendar Month, the Calculation Agent shall calculate the Substitute CPI Index in accordance with the following formula:</p> $\text{CPI}_m = \text{CPI}_{m-1} \times (\text{CPI}_{m-1} + \text{CPI}_{m-13})^{1/12}$ <p>where:</p> <p>CPI_m = the Substitute CPI Index for the Relevant Calendar Month;</p> <p>CPI_{m-1} = the CPI Index for the calendar month immediately preceding the Relevant Calendar Month;</p> <p>CPI_{m-13} = the CPI Index for the thirteenth calendar month preceding the Relevant Calendar Month.</p> <p>b) <u>More than one month delay in publication</u></p> <p>If there is a delay, for a period of more than one month, in the publication of the CPI Index for the Relevant Calendar Month, the Calculation Agent shall calculate the Substitute CPI Index in accordance with the following formula:</p> $\text{CPI}_m = \text{CPI}_{m-n} \times (\text{CPI}_{m-n} / \text{CPI}_{m-n-12})^{n/12}$ <p>where:</p> <p>CPI_m = the Substitute CPI Index for the Relevant Calendar Month;</p> <p>CPI_{m-n} = the CPI Index for the most recent calendar month preceding the Relevant Calendar Month in respect of which a CPI Index was timeously published, such most recent calendar month being the "Last Publication Month";</p> <p>CPI_{m-n-12} = the CPI Index for the twelfth calendar month preceding the Last Publication Month;</p> <p>n (for purposes of $n/12$) = the number of calendar months' delay between the Last Publication Month and the Relevant Calendar Month.</p> <p>c) <u>Subsequent calculations</u></p> <p>Where, following a delay in the publication of the CPI Index for the Relevant Calendar Month, the Calculation Agent is obliged to calculate a Substitute CPI Index for that Relevant Calendar Month in accordance with the provisions of paragraph (a) or paragraph (b) above, as the case may be, then the Calculation Agent shall use that Substitute CPI Index for that Relevant Calendar Month in all subsequent calculations in which the CPI Index for that Relevant Calendar Month is a variable, notwithstanding that the actual CPI Index for that Relevant Calendar Month is, following such delay, subsequently published.</p>
(b)	Alternative Index	<p>If, while this Tranche of Notes is outstanding, the CPI Index is (i) discontinued or (ii) in the reasonable opinion of the Calculation Agent, fundamentally altered in a manner that is materially adverse to the interests of the Noteholders, as the case may be, the Calculation Agent shall consult with Statistics South Africa or any successor entity and, thereafter, the Calculation Agent shall, acting in good faith and in a commercially reasonable manner, calculate an appropriate alternative index (the "Alternative Index") for the Relevant Calendar Month.</p> <p>A change to the CPI Index will be considered fundamental if it affects the character of the CPI Index. Technical changes made by Statistics South Africa to the CPI Index to improve its accuracy as a measure of consumer price changes will not be considered fundamental changes.</p>

(c)	Notice of Substitute CPI Index and Alternative Index	The Calculation Agent will notify the Issuer, the Paying Agent, the JSE, the Central Securities Depository and Noteholders in accordance with Condition 20 (<i>Notices</i>), of the Substitute CPI Index (see Item C(3)(a) above) and/or the Alternative Index (see Item C(3)(b) above) (and the effective date/s thereof) as soon as practicable after each such determination, but in any event not later than 5 Business Days after each such determination.
4.	Reference CPI for an Applicable Payment Date:	<p>The Reference CPI for an Applicable Payment Date shall be determined by the Calculation Agent, on that Applicable Payment Date, in accordance with the provisions of paragraph (a) or paragraph (b) below, as the case may be. The Reference CPI shall be rounded to five decimal places.</p> <p>a) <u>Applicable Payment Date: first day of a calendar month</u></p> <p>If the Applicable Payment Date falls on the first day of a calendar month, the Reference CPI shall be the CPI Index for the fourth calendar month preceding that calendar month.</p> <p>b) <u>Applicable Payment Date: any other day of a calendar month</u></p> <p>If the Applicable Payment Date does not fall on the first day of a calendar month, the Reference CPI shall be determined in accordance with the following formula:</p> $\text{Reference CPI} = \text{Reference CPI}_j + \frac{[(t-1) + D]}{(\text{Reference CPI}_{j+1} - \text{Reference CPI}_j)}$ <p>where:</p> <p>Reference CPI_j = the CPI Index for the fourth calendar month preceding the calendar month in which the Applicable Payment Date falls;</p> <p>Reference CPI_{j+1} = the CPI Index for the third calendar month preceding the calendar month in which the Applicable Payment Date falls;</p> <p>t = the calendar day corresponding to the calendar day of the Applicable Payment Date (for example, if the Applicable Payment Date is 15 January 2010, t = 15);</p> <p>D = the number of days in the calendar month in which the Applicable Payment Date falls (for example, if the Applicable Payment Date is 15 January 2010, D = 31).]</p>
5.	Reference CPI for the Issue Date:	60.633449601548
(a)	Adjustment to the Reference CPI for the Issue Date	<p>a) <u>General</u></p> <p>If the CPI Index used to calculate the Reference CPI for the Issue Date specified in Item C(5) above (the "Original CPI Index") is reset (such reset CPI Index being hereinafter referred to as the "Reset CPI Index"), the Calculation Agent shall, acting in good faith and in a commercially reasonable manner, calculate a new Reference CPI for the Issue Date (in such a way that the capital value of this Tranche of Notes is the same immediately before and after the reset) in accordance with the following formula:</p> $\text{CPI} = (\text{Reset CPI Index} \times \text{CPI}_0) + \text{Original CPI Index}$ <p>where:</p> <p>CPI = the new Reference CPI for the Issue Date;</p> <p>CPI₀ = the Reference CPI for the Issue Date specified in Item C(5) above.</p> <p>b) <u>Subsequent calculations</u></p>

		Following the calculation of a new Reference CPI for the Issue Date pursuant to paragraph (a) above, all references in this Item C to the "Reference CPI for the Issue Date" shall be construed as references to that new Reference CPI.]
6.	<i>Index Ratio for an Applicable Payment Date:</i>	The Index Ratio on an Applicable Payment Date is the Reference CPI for that Applicable Payment Date (see Item C(4) above) + the Reference CPI for the Issue Date (see Item C(5) above).
7.	<i>Determination of Inflation-Linked Interest Amount:</i>	
(a)	Real Rate	3.45% (nominal annual compounded semi-annually)
(b)	Interest Commencement Date	20 February 2015
(c)	Interest Payment Dates	Semi-annually in arrears on 7 June and 7 December of each year
(d)	First Interest Payment Date	7 June 2015
(e)	Interest Amount	The Interest Amount payable in respect of the Notes in this Tranche for each Interest Period will be the amount calculated by the Calculation Agent in accordance with the following formula: <i>(Aggregate Principal Amount x Index Ratio) x (Real Rate + 2)</i>
(f)	Business Day Convention	Following Business Day Convention
D. REDEMPTION		
1.	Maturity Date	7 December 2033
2.	Prior approval of the Registrar of Banks required for redemption	No
3.	Call Option	Not Applicable
4.	Put Option	Not Applicable
5.	Redemption Date	As applicable (i) the Maturity Date, (ii) the date fixed for redemption in terms of Condition 9.2.1 (<i>Redemption for tax reasons</i>) or (iii) the date fixed for redemption in terms of Condition 12.1 (<i>Events of Default relating to Unsubordinated Notes</i>), as the case may be.
6.	Final Redemption Amount	The Redemption Amount payable in respect of the Notes in this Tranche on the Redemption Date (see Item D(5) above) will be the amount calculated by the Calculation Agent in accordance with the following formula: <i>(Aggregate Principal Amount x Index Ratio) (note: see Item C(6) above), as read with Item C(1) above</i>
7.	Early redemption for regulatory reasons	Condition 9.3 (<i>Redemption for regulatory reasons</i>) is not applicable
8.	Other terms applicable on redemption	Not Applicable
E. ADDITIONAL PROVISIONS		
1.	Purchase of Subordinated Notes and the effect on voting rights	Condition 9.10 (<i>Purchase</i>) and Condition 9.11 (<i>Cancellation</i>) is amended <i>mutatis mutandis</i> in accordance with the following provisions of this Item E(1) below: In terms of the Regulations Relating to Banks, Subordinated Notes may not be held or acquired by the Issuer or any person related to or associated with the Issuer or over which the Issuer exercises or may exercise control or significant influence (including, without limitation, any of the Issuer's Subsidiaries. Accordingly, neither the Issuer nor any of the Issuer's Subsidiaries nor any other person related to or associated with the Issuer or over which the Issuer exercises or may exercise control or significant influence may at any time purchase or acquire or hold Subordinated Notes.

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		Subject to the definition of "control" in the Banks Act, the phrase "any person related to or associated with the Issuer or over which the Issuer exercises or may exercise control or significant influence" (or any applicable portion of such phrase) shall be construed <i>mutatis mutandis</i> in accordance with sections 2 and 3 of the Companies Act, 2008.
2.	Ordinary Conditions	<p>Save to the extent otherwise provided in this Applicable Pricing Supplement (and subject to the following paragraph of this Item E(2) below), the Ordinary Conditions shall apply <i>mutatis mutandis</i> to this Tranche as if all references to "Unsubordinated Notes" in the Ordinary Conditions were to include this Tranche of Notes.</p> <p>To the extent that there is any conflict or inconsistency between the provisions of the Ordinary Conditions and the provisions of this Applicable Pricing Supplement, the provisions of this Applicable Pricing Supplement shall prevail.</p>
F.	AGENTS AND SPECIFIED OFFICES	
1.	Calculation Agent	Nedbank Capital, a division of Nedbank Limited
2.	Specified Office of the Calculation Agent	Block F, 3 rd Floor Nedbank 135 Rivonia Road Campus, 135 Rivonia Road, Sandown, Sandton, 2196, Republic of South Africa
3.	Paying Agent	Nedbank Investor Services, a division of Nedbank Limited
4.	Specified Office of the Paying Agent	Braampark Forum IV, 2 nd Floor, 33 Hoofd Street, Braamfontein, 2001, Republic of South Africa
5.	Transfer Agent	Nedbank Investor Services, a division of Nedbank Limited
6.	Specified Office of the Transfer Agent	Braampark Forum IV, 2 nd Floor, 33 Hoofd Street, Braamfontein, 2001, Republic of South Africa
G.	REGISTER CLOSED	
1.	Last Day to Register	Up until 17h00 (South African time) on 1 June and 1 December of each year until the Redemption Date being, in each instance, the last date on which the Transfer Agent will accept Transfer Forms and record in the Register the transfer of Notes in this Tranche represented by Certificates.
2.	Register Closed Period	The Register will be closed during the 5 days preceding each Interest Payment Date and the Redemption Date from 17h00 (South African time) on the Last Day to Register until 17h00 (South African time) on the day preceding the Interest Payment Date and the Redemption Date, being the period during which the Register is closed for purposes of giving effect to transfers, redemptions or payments in respect of the Notes in this Tranche.
3.	Books Closed Dates	2 June and 2 December of each year until the Redemption Date.
H.	GENERAL	
1.	Exchange Control Inward Listings Directive	Not Applicable
2.	Other approval of the Exchange Control Authorities	Not Applicable
3.	Additional selling restrictions	Not Applicable
4.	International Securities Numbering (ISIN)	ZAG000123811
5.	Stock Code Number	NILB12
6.	Financial Exchange	JSE Limited (Interest Rate Market of the JSE)
7.	Method of Distribution	Private Placement
8.	Dealer	Nedbank Capital, a division of Nedbank Limited
9.	Stabilisation Manager	Not Applicable
10.	Credit rating assigned to this Tranche of Notes as at the Issue	Not Applicable

	Date	
11.	Credit rating of the Issuer as at the Issue Date	As at the Issue Date, the Issuer has a domestic long-term credit rating of (i) AA(zaf) from Fitch Southern Africa (Proprietary) Limited, (ii) Aa3.za from Moody's Investor Services Limited and (iii) zaAA from Standard & Poor's.
12.	Governing law	South African law
13.	Other banking jurisdiction	Not Applicable
14.	Use of proceeds	The proceeds of the issue of this Tranche of Notes will be used by the Issuer for its general corporate purposes

The Issuer accepts full responsibility for the information contained in the Programme Memorandum (including Annexure "A") and this Applicable Pricing Supplement.

The authorised Programme Amount of ZAR40,000,000,000 has not been exceeded.

The Issuer confirms that, to the best of its knowledge and belief, there are no facts the omission of which would make the Programme Memorandum (as read with Annexure "A") or any statement contained in the Programme Memorandum (as read with Annexure "A") false or misleading, that all reasonable enquiries to ascertain such facts have been made. The Issuer confirms that, to the best of its knowledge and belief, this Applicable Pricing Supplement (as read with the Programme Memorandum and Annexure "A") contains or incorporates by reference all information required by the amended JSE Debt Listings Requirements published by the JSE and set out in Bulletin 1 of 2014 (13 January 2014), and all other Applicable Laws.

The JSE assumes no responsibility or liability of whatsoever nature for the correctness of any of the statements made or opinions expressed or information contained in or incorporated by reference into the Programme Memorandum and/or Annexure "A". The admission of this Tranche of Notes to the list of Debt Securities maintained by the JSE and the listing of this Tranche of Notes on the Interest Rate Market of the JSE is not to be taken as an indication of the merits of the Issuer or the Notes. The JSE assumes no responsibility or liability of whatsoever nature for the contents of the Programme Memorandum or Annexure "A" or this Applicable Pricing Supplement or any information incorporated by reference into the Programme Memorandum (as read with Annexure "A"), and the JSE makes no representation as to the accuracy or completeness of the Programme Memorandum or Annexure "A" or this Applicable Pricing Supplement, or any information incorporated by reference into the Programme Memorandum (as read with Annexure "A"). The JSE expressly disclaims any liability for any loss arising from or in reliance upon the whole or any part of the Programme Memorandum or Annexure "A" or this Applicable Pricing Supplement or any information incorporated by reference into the Programme Memorandum (as read with Annexure "A").

Application is hereby made to list Tranche 1 of Series 1 of the Notes on the Interest Rate Market of the JSE, as from 23 October 2014, pursuant to the Nedbank Limited ZAR40,000,000,000 Domestic Medium Term Note Programme.

NEDBANK LIMITED

By: _____

duly authorised

Date: 17/2/15

By: _____

duly authorised

Date: 17/2/2015.

ANNEXURE A: RISK FACTORS AND SOUTH AFRICAN TAXATION

Any capitalised terms not defined in this Annexure "A" shall have the meanings ascribed to them in the Applicable Pricing Supplement.

This Annexure "A" must be read in conjunction with the Current Programme Memorandum and the Applicable Pricing Supplement. To the extent that there is any conflict or inconsistency between the provisions of this Annexure "A" and the Current Programme Memorandum, the provisions of this Annexure "A" shall prevail.

SUPPLEMENTED RISK FACTORS

Potential investors in the Notes are referred to the Risk Factors which set out certain investment considerations and risks. This section headed "*Supplemented Risk Factors*" ("**this Section**") supplements and updates certain of the Risk Factors insofar as such Risk Factors (and/or any additional risk factors) relate to the Basel III Accord.

The Issuer believes that the factors outlined in this Section below may, in addition to the Risk Factors (as supplemented by this Section), 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. The value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.

The Issuer believes that the factors described in this Section below may, in addition to the Risk Factors (as supplemented by this Section), represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts under any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information available to it as at the Issue Date, or which it may not be able to anticipate. The Issuer does not represent that the statements in this Section below and the Risk Factors (as supplemented by this Section) regarding the risks of holding any Notes are exhaustive. The information set out in this Section below (and the Risk Factors, as supplemented by this Section) is not intended as advice and does not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes.

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

BASEL III ACCORD

General

Basel III provides, among other things, for 3 "tiers" of Regulatory Capital: (i) Common Equity Tier 1 Capital, (ii) Additional Tier 1 Capital and (iii) Tier 2 Capital.

On and with effect from 1 January 2013 and 10 December 2013, respectively, Basel III was adopted and implemented in the South African regulatory framework, with various phase-in and transitional arrangements until 1 January 2019 (see "*South African implementation of Basel III*" below).

The International BCBS Basel III quantitative impact studies ("**QIS**") enable selected banks to report figures to enable the Basel Committee on Banking Supervision ("**BCBS**") to assess the impact of Basel III. These QIS reports are submitted on a bi-annual basis. The Issuer has participated fully in the QIS process.

The main changes under Basel III are summarised as follows:

- Basel III provides for tighter definitions of what constitutes acceptable regulatory capital. Basel III places enhanced emphasis on the consistency and quality of capital and on curtailing, among other things, liquidity risk. From a capital perspective the most heavily impacted banks are likely to be those with relatively large capital market businesses, particularly trading activities, complex securitisations, over-the-counter derivatives (counterparty credit risk) and securities lending.
- Basel III allocates a higher regulatory capital value to shareholders' equity than to subordinated loss-absorbing debt, preference shares and hybrid capital. For example, it is expected that Tier 2 Capital will be allowed to constitute less than the current 33% of a bank's overall capital
- Basel III has introduced two new buffers: a capital conservation buffer of 2.5% (if a bank's capital adequacy ratios fall below the minimum required ratio, including this buffer, the bank will be subject to dividend and bonus restrictions) and a countercyclical buffer that ranges between 0% and 2.5%, depending on whether the rate of credit extension exceeds the growth of the real economy. These buffers are due to be phased in from 2016, but market expectations could lead to earlier compliance.
- Basel III provides for a new maximum leverage ratio.
- Basel III has introduced two new minimum liquidity standards – the liquidity coverage ratio ("**LCR**") and the net stable funding ratio ("**NSFR**"). From a liquidity perspective, many banks, domestic and foreign, now meet the LCR requirements following the BCBS announcement on the 06 January 2013. However, based on industry estimates,

compliance with the NSFR remains structurally challenging and consequently the Issuer will continue to work closely with the SARB, peer groups and National Treasury in terms of addressing the structural challenges while being mindful of the fact that the Basel Committee is likely to consider fundamental changes to the NSFR well ahead of its targeted implementation date of January 2018. Having finalised the LCR, the Basel Committee has formally announced that it will, as a matter of priority, now focus on the NSFR over the next two years.

- Basel III also provides for enhanced capital requirements for derivatives, repurchase and securities financing transactions.

In May 2012 the South African Reserve Bank ("SARB") issued Guidance Note 05/2012 stating that it would allow banks to include cash reserves in the calculation of the LCR and that it will provide a committed liquidity facility ("CLF") for an amount up to 40% of the LCR requirements. Guidance Note 05/2012 contained details regarding acceptable collateral for the CLF. In August 2013 SARB issued Guidance Note G6/2013 which replaces Guidance Note 05/2012. Guidance Note G6/2013 sets out further details of the size of CLF. The CLF is only available to banks with a LCR shortfall and is capped at 40% of the total amount of high-quality liquid assets ("HQLA") a bank is required to hold in ZAR (based on the estimated requirements as from 2019). Guidance Note G6/2013 also sets out the general guidelines on SARB's preferences for the collateral requirements and the characteristics with which collateral for the CLF must comply. Taking into account the Issuer's cash reserves, the liquid assets held for regulatory purposes, the surplus liquidity buffer and the Issuer's anticipated use of the CLF, on a pro forma basis the Issuer is compliant already with the 2015 Basel III LCR requirement.

Meeting the LCR requirement was further assisted by the announced amendments to the LCR by the BCBS on 6 January 2013. The amendments are positive in that they provide banks with a longer lead time to implement the LCR and have resulted in a broader definition of qualifying HQLA that can be held in the bank's liquidity buffers. Lastly, these amendments have resulted in reduced liquidity buffer requirements given refinements to various cash outflow assumptions in the LCR formula.

Basel III is a minimum global standard and, accordingly, the relevant authority is not prevented from setting higher standards, as was done in South Africa with the implementation of Basel II.

The main impact of Basel III on South African banks is likely to be on the levels and composition of capital, the levels of highly marketable securities, liquidity risk and funding profiles and, accordingly, on the general cost of bank funding as banks look to optimally structure their Capital base and reform their funding models to meet the requirements of the new liquidity ratios.

Loss absorption at the point of non-viability of the Issuer

Basel III requires the implementation of certain loss absorbent criteria under certain non-viability circumstances, as set out in the Basel III Accord ("**Loss Absorption PONV Requirements**").

Under the Loss Absorption PONV Requirements, the terms and conditions of all instruments, the proceeds of the issue of which rank (or are intended to rank) as Tier 2 Capital or Additional Tier 1 Capital 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" (that is, ordinary shares) upon the occurrence of the relevant Trigger Event unless, among other things, duly enforceable legislation is in place:

- that requires such instruments to be Written Off upon the occurrence of the Trigger Event; or
- that otherwise requires such instruments to fully absorb loss before taxpayers or ordinary depositors are exposed to loss.

As a minimum, the Trigger Event must be the earlier of:

- a decision that a Write Off, without which the issuing bank would become non-viable, is necessary, as determined by the Relevant Authority; and
- 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.

South African Implementation of Basel III

Regulations Relating to Banks and the Banks Amendment Act, 2013

The amended Regulations Relating to Banks came into operation on 1 January 2013 and provide, among other things, for the partial implementation of the Basel III Accord in South Africa and the requirements with which specified categories of Capital Instruments must comply in order for the proceeds of the issue thereof to rank as Tier 2 Capital or Additional Tier 1 Capital.

However, the required amendments to the Banks Act to provide, among other things, for the full implementation of the Basel III Accord in South Africa, were only recently promulgated and have only recently come into force (10 December 2013). These amendments are contained in the Banks Amendment Act, 2013, published in Government Gazette No. 37144 of 10 December 2013.

Relevant Authority

The Relevant Authority for purposes of Basel III in South Africa will be the Registrar of Banks or such other governmental authority in South Africa (if any) as will have the responsibility of making decisions relating to the declaration of a bank as being non-viable, with the effect of triggering loss absorption within the relevant Capital Instruments.

Loss Absorption PONV Requirements

For purposes of the implementation of the Basel III Accord in South Africa, the Loss Absorption PONV Requirements are currently contractual in nature and the relevant contractual provisions are set out in the Regulations Relating to Banks as read with Guidance Note 7 (see "Guidance Note 7" below).

However, it is expected that duly enforceable legislation (the Recovery and Resolution Legislation) will be enacted in South Africa that will provide for, among other things, the Loss Absorption PONV Requirements (see "Guidance Note 7" and "Recovery and Resolution Legislation" below).

Uncertainties

Basel III, the Regulations Relating to Banks and the fact that the Banks Act has only recently been amended to provide for the full implementation of the Basel III Accord in South Africa, have introduced a number of uncertainties. Some of these uncertainties are summarised below:

There is uncertainty regarding the purely "discretionary" nature of the Trigger Event provided for in Regulations 38(13)(b) and 38(14) of the Regulations Relating to Banks and the criteria that will be taken into account by the Relevant Authority in determining the Trigger Event.

Regulations 38(13)(b) and 38(14) of the Regulations Relating to Banks provide that the Write-Off or Conversion must occur "upon the occurrence of the trigger event specified in writing by the [Relevant Authority]". Currently, there is nothing in Regulations 38(13)(b) and 38(14) of the Regulations Relating to Banks that requires the Relevant Authority to notify the Issuer or the relevant Noteholders that the Trigger Event has occurred.

It is not clear from Regulations 38(13)(b) and 38(14) whether the Issuer may select the Conversion or the Write-Off option upfront or whether the option will be determined by the Relevant Authority at the occurrence of the Trigger Event.

There are a number of uncertainties relating to the Conversion option, such as the nature of the ordinary shares into which Additional Tier 1 Notes and Tier 2 Notes must be Converted and the valuation of these ordinary shares.

Guidance Note 7

Guidance Note 3/2013 headed "Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments", dated 11 June 2013, issued by the Relevant Authority in terms of section 6(5) of the Banks Act ("Guidance Note 3") clarified some, but not all, of the uncertainties described under "Uncertainties" above.

On 18 October 2013 SARB issued Guidance Note 7 which replaces Guidance Note 3. Banks are advised in Guidance Note 7 that SARB "will continue to monitor international developments around the loss absorption requirements and, should it become necessary, issue further guidance".

Guidance Note 7 has further clarified some, but not all, of the uncertainties described under "Uncertainties" above.

Guidance Note 7 makes it clear that the Issuer must clearly indicate in the Applicable Pricing Supplement relating to a Tranche of Subordinated Notes whether that Tranche of Subordinated Notes will, at the occurrence of the Trigger Event (at the Discretion of the Relevant Authority), be Written Off or Converted. Accordingly, the Issuer may select and provide for the Conversion or the Write-Off option on the Issue Date.

Guidance Note 7 makes it clear that the Relevant Authority will notify the Issuer in writing once the Relevant Authority determines that the Trigger Event has occurred (see "Determination and notification of Trigger Event" below).

Some of the uncertainties relating to the Conversion option, such as the nature of the ordinary shares into which Additional Tier 1 Notes and Tier 2 Notes must be Converted and the valuation of these ordinary shares, have been clarified in Guidance Note 7.

In terms of Guidance Note 7 the purely "discretionary" nature of the Trigger Event will remain applicable to Additional Tier 1 Capital Instruments which are "accounted as equity" and Tier 2 Capital Instruments.

The CET1 Ratio criterion for determining the occurrence of the Trigger Event which was provided for in Guidance Note 3 is now, under Guidance Note 7, only relevant in determining the occurrence of the Trigger Event which will be applicable to Additional Tier 1 Capital Instruments which are "accounted as liabilities".

Guidance Note 7 makes it clear that SARB and the National Treasury are in the process of implementing a statutory bail-in option under South African law ("Recovery and Resolution Legislation") (see "Recovery and Resolution Legislation" below).

The Applicable Terms and Conditions of a Tranche of Subordinated Notes are likely to remain in force for Subordinated Notes issued prior to the introduction of the Recovery and Resolution Legislation.

Determination and notification of Trigger Event

The Relevant Authority has considerable discretion as to whether or not a Trigger Event has occurred. In relation to the Loss Absorption PONV Requirements which are applicable to both Additional Tier 1 Notes and Tier 2 Notes, the

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Relevant Authority has discretion to determine whether or not (i) a Write-Off or Conversion (as applicable) or (ii) a public sector injection of capital, is required in order to avoid the Issuer ceasing to be viable.

The Regulations Relating to Banks (as read with Guidance Note 7) which implement the Loss Absorption PONV Requirements also provide that the Trigger Event must "*as a minimum*" be the earlier of (a) a decision that a write-off, without which the Issuer would become non-viable, is necessary, as determined by the Relevant Authority or (b) the decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined by the Relevant Authority. This wording appears to grant the Relevant Authority discretion to determine a Trigger Event that may occur earlier than the events specified in (a) and (b). Subordinated Noteholders are therefore exposed to the risk that their Subordinated Notes may be Written-Off or Converted (as applicable) (whether in whole or in part), before either (a) or (b) applies. Whilst Guidance Note 7 contemplates that further legislative guidance will be provided in due course, as at the Issue Date the Issuer cannot give any further assurances as to what any such Trigger Event will be, or the implications for Subordinated Noteholders.

It is also uncertain as to the time period that may elapse between the Relevant Authority's determination that a Trigger Event has occurred and its communication of that decision to the Issuer. Whilst the Issuer expects that any such notification would be made swiftly in order to ensure market stability, the Relevant Authority is not required to act within any particular time period. Because the Write Off or Conversion (as applicable) is specified to occur as at the date of the Trigger Event (and not the date on which the Relevant Authority notifies the Issuer of the occurrence of the Trigger Event), there is a risk that there will be a delay between the Relevant Authority's decision to require a Write-Off or Conversion (as applicable) and the Issuer being able to notify Subordinated Noteholders of the occurrence of the Trigger Event.

Recovery and Resolution Legislation

The Recovery and Resolution Legislation is expected to implement a statutory bail-in option under South African law, although the scope and timing of any such measures are uncertain. The bail-in option is likely to empower the Relevant Authority to recapitalise a failed financial institution by allocating losses to its shareholders and unsecured creditors in a manner that respects the hierarchy of claims in an insolvency of the relevant financial institution, consistent with shareholders and creditors of the relevant financial institution not receiving less favourable treatment than they would have done in insolvency. The bail-in option may include the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the Issuer (including both senior and subordinated liabilities) and the power to convert a liability from one form to another.

Although not certain, the conditions for use of the bail-in option are likely to be, in summary, that (i) the Relevant Authority determines that the Issuer is failing or is likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid the Issuer's failure and (iii) the Relevant Authority determines that it is in the public interest to exercise the bail-in option. Any future bail-in option exercised by the Relevant Authority in respect of the Notes is likely to involve the exercise of some discretion by the Relevant Authority, and could potentially result in a holder of such Notes losing part of, or the entire value of, their investment in such Notes.

As the Recovery and Resolution Legislation is yet to be passed, there is uncertainty as to the extent, if any, that due process rights or procedures will be provided to holders of Notes subject to the bail-in option when the final Recovery and Resolution Legislation is implemented. Therefore, holders of the Notes may have limited rights to challenge any decision of the Relevant Authority to exercise its bail-in option or to have that decision reviewed by a judicial or administrative process or otherwise.

"Grandfathering" of capital instruments issued before 1 January 2013

The Loss Absorption PONV Requirements implemented in South Africa do not apply retrospectively and, accordingly, some or all of the capital instruments issued by the Issuer before 1 January 2013 will be "grandfathered", that is, phased out over a ten-year period from 1 January 2013.

The ability of the Issuer to replace these capital instruments with capital instruments which comply with Basel III and, where applicable, the Loss Absorption PONV Requirements, over the ten year period is uncertain, and will depend on the extent to which the uncertainties regarding the Regulations Relating to Banks and the Banks Act have been resolved to enable the issue of such capital instruments in significant volumes, the appetite of the capital markets for capital instruments and the ability to issue such capital instruments at a price mutually acceptable to the Issuer and investors.

Bearing in mind the uncertainties referred to above (see, in addition, "*Uncertainties*" and "*Guidance Note 7*" above), it is difficult for the Issuer to predict the precise effects of the changes that may result from the full implementation of Basel III in South Africa and/or what regulatory changes may be imposed in the future, or estimate, with accuracy, the impact that the full implementation of Basel III in South Africa and/or related regulatory changes that may be imposed in the future may have on the Issuer's business, the products and services it offers and the values of its assets. If, for example, the Issuer were required to make additional provisions, increase its reserves or capital, or exit or change certain businesses, as a result of the full implementation of Basel III in South Africa and/or related regulatory changes that may be imposed in the future, this could have an adverse effect on the Issuer's business, financial condition and results of operations.

Notwithstanding the above, the Issuer has implemented numerous initiatives in preparation for the full implementation of Basel III in South Africa, and has internally assessed and provided, to the best of its ability, for the anticipated budgetary impacts of the full implementation of Basel III in South Africa.

Capital adequacy requirements

The Issuer is subject to the capital adequacy requirements set out in the Banks Act, as read with the Regulations Relating to Banks, which provide for a minimum target ratio of capital to risk-adjusted assets, which could limit its operations (see "South African implementation of Basel III" above).

The Issuer must, in terms of the Banks Act, as read with the Regulations Relating to Banks (see "South African implementation of Basel III" above) and Directive 5 (see "Directive 5" below), maintain a minimum level of capital based on risk-adjusted assets and off-balance-sheet exposures.

Any failure by the Issuer to maintain its capital adequacy ratios may result in sanctions against the Issuer which may in turn impact on its ability to fulfil its obligations under the Notes.

Directive 5

Directive 5 of 2013, dated 26 April 2013, was issued by the Relevant Authority, in terms of section 6(6) of the Banks Act, in April 2013 ("Directive 5"). A summary of certain of the provisions of Directive 5 is set out below:

Directive 5 informs banks of matters related to the prescribed minimum required capital ratios and the application of various components of the minimum required capital ratios such as the systemic risk capital requirement (Pillar 2A), the domestic systemically important bank (D-SIB) capital requirement, the countercyclical buffer range and the capital conservation buffer range. Directive 5 also details the phase-in requirements for the prescribed minimum required capital ratios.

Annexure A of Directive 5 stipulates the various capital tiers, together with various related elements specified in the Regulations Relating to Banks and in the Basel III Accord, including the systemic risk capital requirement (Pillar 2A), the bank-specific individual capital requirement (ICR, also known as Pillar 2B), and the phasing in of the related minimum requirements. The phase-in arrangements for the minimum requirements are set out in Annexure B of Directive 5.

Regulation 38(8)(e)(ii) of the Regulations Relating to Banks prescribes that the capital requirement for systemic risk (that is Pillar 2A) will be specified by the Relevant Authority. The Pillar 2A requirement may therefore also be revised from time to time.

The Pillar 2A capital requirement will be set at 1.5% of risk-weighted exposures (1% covered by common equity tier 1 capital and a further 0.5% by additional tier 1 capital) for all banks at a total capital level with effect from 1 January 2013, after which it will be increased to 2.0%. In order to ensure that factors related to systemic risk are not double counted, the Pillar 2A capital requirement will be adjusted during the phase-in period of the higher loss absorbency (HLA) requirement for D-SIBs, which will come into effect from 1 January 2016, resulting in an appropriate reduction in some components of the Pillar 2A requirement over time.

Banks are notified that the combined total capital-adequacy requirement in respect of the Pillar 2A and the HLA requirement for D-SIBs will not exceed 2% for common equity tier 1 capital, 2.5% for additional tier 1 capital and 3.5% in respect of the total capital adequacy ratio.

Banks should maintain an additional discretionary capital buffer above the specified minimum requirements, as envisaged in Regulation 38(8)(e)(vii) of the Regulations Relating to Banks, to ensure that the execution of internal business objectives or the occurrence of adverse external environmental factors do not prevent banks from operating above the relevant minima. The Relevant Authority will continue to monitor and assess the adequacy of this internal buffer against a bank's strategy, risk profile and levels of capital.

Banks are advised to take note of the fact that guidance will be provided on specific aspects of the new capital framework, should it become necessary, after the BCSB has finalised the consultative processes which are currently still under way.

Annexures A and B of Directive 5 provide, among other things, for the capital adequacy ratios for 2014:

- CET 1 Capital Requirement: Minimum CETI Ratio (per Basel III) = 4% + Pillar 2A for CETI = 1.5%. Minimum CETI plus Pillar 2A = 5.5%.
- Tier 1 Capital Requirement: Minimum Tier 1 Ratio (per Basel III) = 5.5% + Pillar 2A for T1 = 1.5%. Minimum T1 plus Pillar 2A = 7.0%.
- Total Capital Requirement: Minimum Total Capital Ratio (per Basel III) = 8.0% + Pillar 2A for Total Capital = 2%. Minimum Total Capital plus Pillar 2A = 10%.

These minimum 2014 capital requirements exclude any bank-specific individual capital requirement (ICR, also known as Pillar 2B) for 2014.

The required minimum capital requirements will be phased in over a number of years and, as such, will change annually based on Directive 5 (or any other relevant guidance note to be issued in the future by the Relevant Authority).

It is difficult for the Issuer to predict the precise effects of the changes that may result from the implementation of Basel III on the Issuer's calculations of capital, the impact of these revisions on other aspects of its operations or the impact on the pricing of the Notes.

SOUTH AFRICAN TAXATION

The comments in this section headed "South African Taxation" below are intended as a general guide to the relevant tax laws of South Africa as at the Issue Date. 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 the Notes. Prospective subscribers for or purchasers of the Notes should consult their professional advisers in this regard.

Securities Transfer Tax

The issue, transfer and redemption of the Notes will not attract securities transfer tax under the Securities Transfer Tax Act, 2007. Any future transfer duties and/or taxes that may be introduced in respect of (or be applicable to) the transfer and/or redemption of the Notes will be for the account of the Noteholders.

Income tax - treatment of premium and/or discount as well as interest on the Notes

The taxation of "interest" is regulated by section 24J of the Income Tax Act, 1962 ("**Income Tax Act**"). For tax purposes "interest" as defined in section 24J of the Income Tax Act ("**Interest**") has a wide meaning and includes, among other things, not just interest and related finance charges, but also any discount or premium payable or receivable in terms of or in respect of a financial arrangement.

Original issue discount or premium

Any original issue at a discount to the Principal Amount of the Notes will be treated as interest for tax purposes, and the discount income will be deemed to accrue to the Noteholder on a yield to maturity basis as if such Noteholder were to hold the Notes until maturity. Any original issue premium over the Principal Amount of the Notes will also be treated as interest for tax purposes and will be taken into account in calculating the return to the Noteholder on a yield to maturity basis as if such Noteholder were to hold the Notes until maturity.

Interest on the Notes

A "resident" (as defined in section 1 of the Income Tax Act) ("**Resident**") will, subject to any available exemptions, be taxed on its worldwide income. Accordingly, a Resident Noteholder will be liable for income tax, subject to available exemptions, on any income received or accrued in respect of the Notes held by that Resident Noteholder in the relevant year of assessment of that Resident Noteholder.

A person who or which is not a Resident ("**Non-Resident**") is currently taxed in South Africa under the Income Tax Act only on income from a source within or deemed to be within South Africa. Interest which, during the relevant year of assessment of a Non-Resident Noteholder, is received or accrued in respect of the Notes which are held by that Non-Resident Noteholder will (subject to "*Withholding tax*" below) be exempt from income tax under section 10(1)(h) of the Income Tax Act, unless that Non-Resident Noteholder:

- a) is a natural person who was physically present in South Africa for a period exceeding 183 calendar days in aggregate during the relevant year of assessment; or
- b) at any time during the relevant year of assessment carried on business through a permanent establishment of that Non-Resident Noteholder in South Africa.

If a Non-Resident Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, an exemption from or reduction of tax liability under the Income Tax Act may be available under an applicable convention concluded between the Government of the Republic of South Africa and the relevant other contracting state for the avoidance of double taxation ("**DTA**"). In addition, certain entities may be exempt from income tax. Prospective Non-Resident Noteholders must consult their own professional advisers as to whether the interest income earned on the Notes to be held by them will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable DTA.

As regards liability for the withholding tax on interest paid to Non-resident Noteholders, see "*Withholding tax*" below.

Withholding tax

The Taxation Laws Amendment Act, 2013 amended the Income Tax Act on and with effect from 12 December 2013. In terms of Part IVB of the amended Income Tax Act, a withholding tax on interest paid to Non-Residents (at a rate of 15% of the amount of the interest) ("**Withholding Tax**") will come into effect on 1 January 2015.

Subject to any Withholding Tax relief provided for in the Income Tax Act (see below) or an applicable DTA, the Withholding Tax will be imposed in respect of all payments of interest to Non-Residents (other than payments of interest to a Non-Resident who is not entitled to the section 10(1)(h) exemption referred to under "*Income tax - treatment of premium and/or discount as well as interest on the Notes*" above and which Non-Resident is therefore liable for the payment of income tax on such interest). However, the exemption will with effect from 1 January 2015 exist in the case of a Non-Resident unless the debt from which the interest arises is effectively connected to a permanent establishment of the Non-Resident in South Africa or, in the case of a natural person, he or she was physically present in South Africa for a period exceeding 183 days in aggregate during the 12 month period preceding the date on which the interest is received or accrued to the Non-Resident. Accordingly, subject as aforesaid, the Withholding Tax will be imposed in respect of all payments of interest under the Notes to Non-Resident Noteholders.

However, payments of interest under the Notes held by Non-Resident Noteholders will be exempt from Withholding Tax if (among other exemptions) the Notes are listed on a "*recognised exchange*" or are issued by a South African bank. The issuer is a South African bank. The JSE is a "*recognised exchange*".

Payments of interest under the Notes held by Non-Resident Noteholders will accordingly be exempt from Withholding Tax.

Disposal of the Notes

If a Noteholder sells or otherwise disposes of a Note, Taxes (whether income tax or capital gains tax) may be levied on such sale or disposal.

Taxes (whether income tax or capital gains tax) may be levied on the disposal or deemed disposal of any Notes held by a Resident Noteholder. In general, income tax will be leviable to the extent that a Resident Noteholder is a trader or has acquired the Notes for speculative purposes. In general, capital gains tax will be leviable to the extent that the Notes have been acquired by a Resident Noteholder for investment purposes and the disposal is not regarded as part of a profit-making transaction even though the South African Revenue Service has generally taken the view that these type of transactions would generally be on revenue account.

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 (see "*Original issue discount or premium*" above) will not again be taken into account when determining any capital gain or loss.

In general, Taxes (whether income tax or capital gains tax) will not be levied on the disposal or deemed disposal of the Notes by a Non-Resident Noteholder unless the profits made on the disposal or deemed disposal of the Notes are from a South African source or are attributable to a permanent establishment of that Non-Resident Noteholder in South Africa during the relevant year of assessment of that Non-Resident Noteholder. An applicable DTA may provide such Non-Resident Noteholder with relief from such Taxes.

Value-added tax

No value-added tax ("**VAT**") is payable on the issue or transfer of the Notes. The Notes constitute "*debt securities*" as defined in the Value-Added Tax Act, 1991 ("**VAT Act**"). The issue, allotment or transfer of ownership of a debt security constitutes a "*financial service*", the supply of which is exempt from VAT in terms of section 12(a) of the VAT Act. However, commissions or other charges that are payable on the facilitation of this "*financial service*" are, in principle, subject to VAT at the standard rate (currently being 14%), depending on the circumstances and the identity of the service provider.