

Absa Capital's NewWave Exchange Traded Notes

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Absa Capital's NewWave ETN programme – an overview

- Absa Bank, acting through its Absa Capital division (“the Issuer”) has established the NewWave Exchange Traded Note Programme (“the Programme”) in terms of the Programme Memorandum, issued on February 20, 2012
- Under the Programme Memorandum, the Issuer may from time to time offer and issue exchange traded notes (“ETNs”, “the Notes”) to a maximum value of ZAR15bn
- Under otherwise specified, the ETNs issued constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank *pari passu* among themselves and (save for certain debt required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer from time to time outstanding. Holders have no rights or beneficial interest in and to any reference to which a Note is linked.
- ETNs issued out of the NewWave Programme are designed to provide investors with an opportunity to access previously expensive or difficult to reach assets, market sectors or trading strategies.
- On March 12, the first 5 ETNs out of the NewWave ETN programme will be listed on the JSE:
 - ▶ NewWave Precious Metals Exchange Traded Notes
 - NewWave Platinum ETN (JSE code: NEWPLT, ISIN: ZAE000162590)
 - NewWave Silver ETN (JSE code: NEWSLV, ISIN, ZAE000162566)
 - ▶ NewWave Currency Exchange Traded Notes
 - NewWave US Dollar ETN (JSE code: NEWUSD, ISIN: ZAE000162608)
 - NewWave Pound Sterling ETN (JSE code: NEWGBP, ISIN: ZAE000162558)
 - NewWave Euro ETN (JSE code: NEWEUR, ISIN: ZAE000162541)

Similarities and differences between ETNs and exchange traded funds (ETFs)

- General product features common to ETFs and ETNs are:
 1. Listed and exchange traded
 2. Easily accessible investment vehicles offering exposure to a wide range of asset classes
 3. Low tracking error
 4. Daily redeemable to issuer subject to terms and conditions

- Specific feature of ETNs is that Investor owns a note, exposing the investor to the credit risk of the issuer

	NewWave ETNs	ETFs
Tenor	Quasi-perpetual (30 years)	Perpetual
Liquidity	Daily on exchange	Daily on exchange
Recourse	Issuer credit (Absa)	Portfolio of assets
Principal risk	Market and issuer risk	Market risk
Tracking error	Low tracking error (only fees)	Low tracking error (fees and rebalancing costs)
Issuer subscription and redemption	Both subscription and redemption in block size	Only redemption in block size
Pricing and trading	Market maker on the exchange	Market maker on the exchange

NewWave precious metal ETNs

- The NewWave Precious Metal ETNs are the first ETNs in SA market referencing the spot price of precious metals.
- Two Precious Metal ETNs listed on March 12:
 - NewWave Platinum ETN (JSE code: NEWPLT, ISIN: ZAE000162590)
 - NewWave Silver ETN (JSE code: NEWSLV, ISIN, ZAE000162566)
- Designed to give investors an exposure to spot price of platinum or silver in a listed instrument
- Each platinum / silver ETN references the Rand equivalent of the US Dollar price of approximately 1/100th of a troy ounce of platinum /silver
- Absa manages its risk under the ETNs by purchasing the underlying bullion from the market for settlement in its unallocated account
- **Fees:** 0.40% per annum (equivalent to 0.40%/365 per day).
- **Listed on the JSE:**
 - ▶ Full intraday liquidity – no minimal size
 - ▶ Market maker – Absa Capital
- Option of purchase or redemption of notes in minimum size directly to the issuer

Key terms and conditions – precious metal ETNs

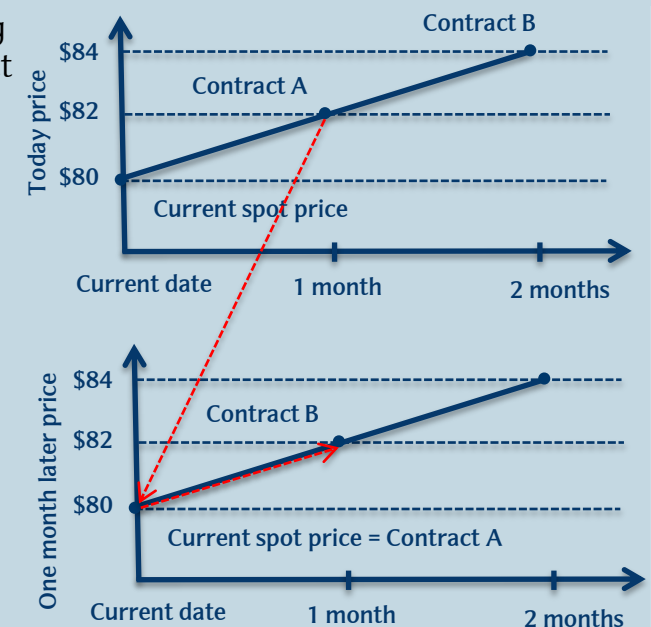
Product description			
PRODUCT	NewWave Platinum / Silver Notes	CURRENCY ASSOCIATED WITH THE UNDERLYING ASSET	USD
ISSUER	Absa Bank Limited	TERM	30 years
PROGRAMME	Absa Bank's R15bn NewWave ETN programme	LISTING SARB EXCHANGE CONTROL CLASSIFICATION	JSE, ETN sector INWARD LISTED NOTE
ORIGINATOR	Absa Capital	JSE CODES	NEWPLT NEWSLV
LEGAL FORM OF THE INSTRUMENTS	Note referencing a quantity of precious metal 1/100 th of a troy ounce of the precious metal	LIQUIDITY	Intraday
	Listed as an Exchange Traded Note referencing a certain quantity of the underlying precious metal	MARKET MAKER	Absa Capital
INTEREST PAYABLE	None	Settlement	Cash settlement
CAPITAL PROTECTION	None	INVESTOR REDEMPTION	Investors can realize their investment in the secondary market (through Market Maker), or directly selling the Notes to the Issuer subject to a minimum of a block (Platinum 400 000 notes and Silver 4 000 000 notes)
GEARING	No	INVESTOR FEE	0.4% p.a.
ISSUE CURRENCY	ZAR	PRIMARY MARKET SPREAD/REDEMPTION FEE	1%

NewWave Precious Metals ETNs innovation

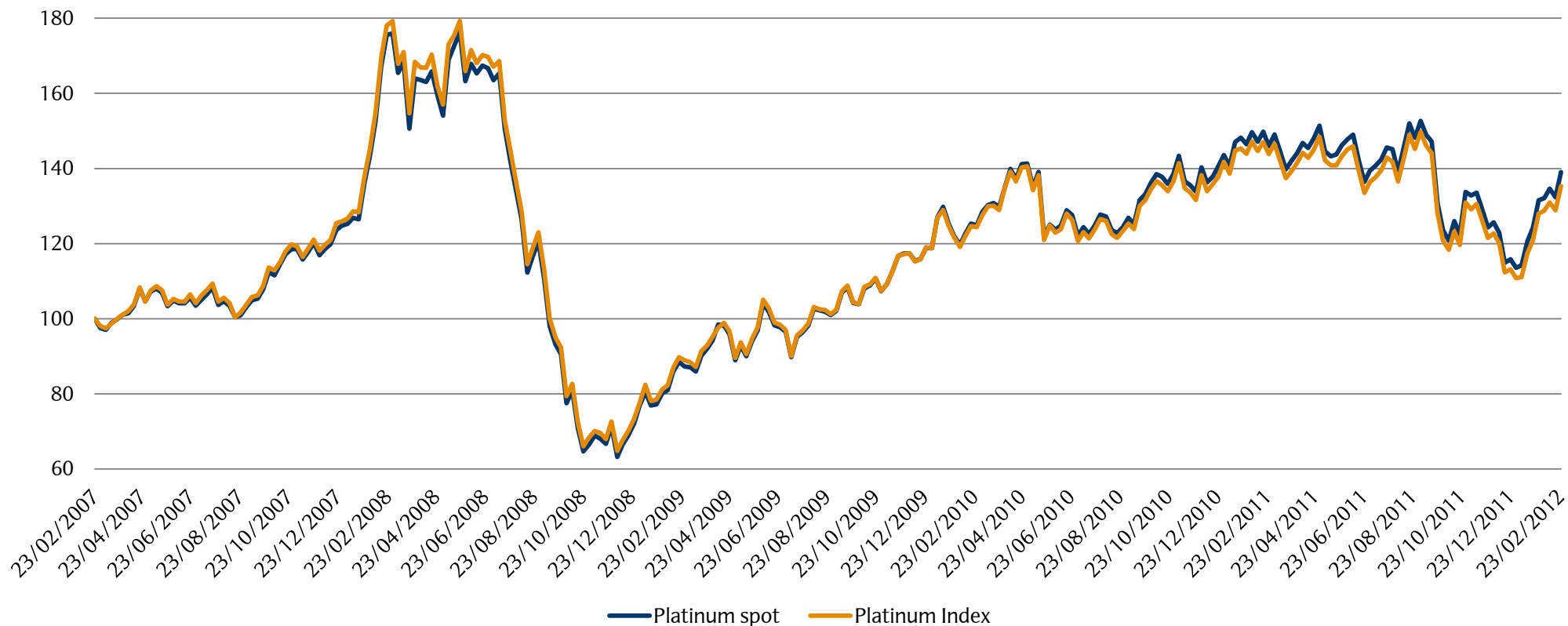
- The NewWave Precious Metal ETNs are the first ETNs in the SA market that reference the spot price of precious metals
- Absa Capital purchases the underlying bullion for settlement and holds it in an unallocated bullion account
- Other ETNs currently listed in the SA market track performance of the underlying futures indices. This exposes investors to an additional risk of the futures index underperforming the spot price due to negative roll yield.

Roll yield in traditional commodity investments

- Investors have traditionally gained exposure to commodity markets via products listed to futures contracts. This avoids the impracticalities of holding and storing the physical asset
- When a futures contract approaches its expiry, investors holding the futures contract will need to roll their position in the current futures contract into the next futures contract. The return generated by holding to maturity and rolling of the futures contract is known as the roll yield
- As an example, the top diagram on the right shows the futures curve for a commodity (assuming futures price of a commodity higher than the spot price – the **contango**). It shows that in respect of today: the spot price of the commodity is \$80; the price of the front month futures contract (contract A) is \$82; the price of the second month futures contract (contract B) is \$84.
- In a month's time, contract A will have reached its delivery date, i.e., the value of the expiring contract A should be equivalent to the prevailing spot price. Similarly, contract B will now have one month to its delivery date and be the front month futures contract.
- If we assume that all else being equal in the futures curve of the commodity, then the bottom diagram will illustrate the new pricing of contract B after one month
- This is an illustration of **negative roll yield** – here investor loses \$2 in one month by holding and selling contract A even though the spot price did not move. If the futures prices are lower than the spot price, we say that the curve is in **backwardation** and the investor experiences the **positive roll yield**
- Futures indices are based on the assumption that the underlying futures contracts are rolled as described



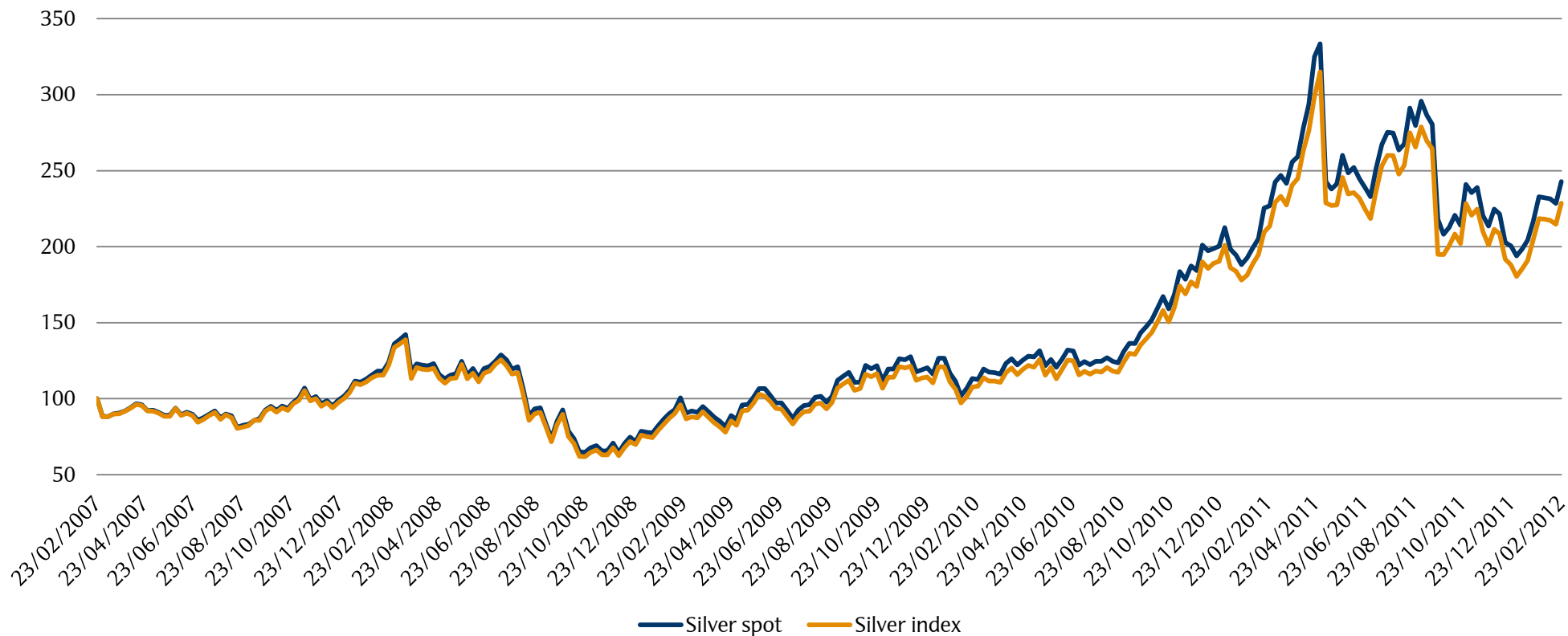
Comparative performance: platinum spot price (PLAT Comdty) vs platinum futures index (SPGCPLTR); 23/02/2007=100



23/02/2007-24/02/2012	Return	Annualised return
Platinum spot	39.06%	6.81%
Platinum futures index	35.30%	6.23%

Comparison of spot and futures prices of precious metals - silver

Comparative performance: silver spot price (XAG Curncy) vs silver futures index (SPGCSITR Index); 23/02/2007=100



23/02/2007-24/02/2012	Return	Annualised return
Silver spot	142.78%	19.40%
Silver futures index	128.56%	17.97%

NewWave Currency ETNs

- NewWave Currency ETNs have been designed with an objective to provide investors with an easy to access and liquid investment in the specified reference currency through a JSE listed security.
- Three NewWave Currency ETNs listed on March 12:
 - ▶ NewWave US Dollar ETN (JSE code: NEWUSD, ISIN: ZAE000162068)
 - ▶ NewWave Pound Sterling ETN (JSE code: NEWGBP, ISIN: ZAE000162558)
 - ▶ NewWave Euro ETN (JSE code: NEWEUR, ISIN: ZAE000162541)
- **USD, EUR and GBP ETNs:**
 - ▶ Designed to give investors exposure to the reference currency exchange rate
 - ▶ Each USD, EUR and GBP ETN equals a fixed principal amount of 1
 - ▶ Each ETN will accrue interest on a daily basis at the overnight LIBOR rate minus an applicable interest rate spread
 - ▶ Interest will be distributed on a semi annual basis
- Absa manages its risk under the Currency ETNs by purchasing the underlying reference currency from the market and places this with the Absa Foreign currency money market desk on deposit earning overnight LIBOR minus an applicable interest rate spread.
- **Fees:** No fees are charged, the Issuer earns an interest rate spread applicable to each reference currency subject to change on a semi-annual basis and published on the etf.absacapital.com
- **Listed on the JSE:s**
 - ▶ Intraday trading – no minimum size
 - ▶ Market maker – Absa Capital
- Option of purchase or redemption of notes in minimum size directly to the issuer

Key terms and conditions – currency ETNs

Product description			
PRODUCT	NewWave USD, EUR and GBP ETNs	CURRENCY ASSOCIATED WITH THE UNDERLYING ASSET	USD, EUR and GBP
ISSUER	Absa Bank Limited	TERM	30 years
PROGRAMME	Absa Bank's R15bn NewWave ETN programme	LISTING SARB EXCHANGE CONTROL CLASSIFICATION	JSE, ETN sector INWARD LISTED NOTE
ORIGINATOR	Absa Capital	JSE CODES	NEWEUR NEWUSD NEWGBP
LEGAL FORM OF THE INSTRUMENTS	Note denominated in the reference currency with a fixed principal amount of USD 1, EUR 1 and GBP 1 with interest accruing on a daily basis payable semi-annually.	LIQUIDITY	Intraday
	Listed as an Exchange Traded Note denominated in the reference currency	MARKET MAKER	Absa Capital
INTEREST PAYABLE	Semi-annually on 28 February and 31 August	SETTLEMENT	Cash settlement
INTEREST RATE	Overnight LIBOR minus spread	INTEREST RATE SPREAD	USD – 0.10% or 15bp EUR – 0.10% or 15bp GBP – 0.20% or 20bp
CAPITAL PROTECTION	Note in Rand terms will go up or down The principal amount per note will not change	INVESTOR REDEMPTION	Investors can realize their investment in the secondary market (through the Market Maker), or directly selling the Notes to the Issuer subject to a minimum of a block (1 000 000 notes) and redemption fee
GEARING	No	INVESTOR FEE	No fee
ISSUE CURRENCY	ZAR	PRIMARY MARKET SPREAD/REDEMPTION FEE	1%

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