THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action to take, please consult your advisor

AFRICAN BANK LIMITED (UNDER CURATORSHIP)

(Registration number 1975/002526/06)

(Incorporated with limited liability in the Republic of South Africa)

"**African Bank**" or "**the Bank**"

OFFER INFORMATION MEMORANDUM

Date of publication: 4 February 2016

This Offer Information Memorandum is an annexure to the Applicable Offer Documents and should not be read in isolation.

This Offer Information Memorandum is an annexure to the Applicable Offer Documents and must be read in conjunction with, and subject to, the Applicable Offer Documents. The Applicable Offer Documents contain a timetable for the relevant Exchange Offers as well as an explanation of the steps that must be taken by funders and Other Senior Creditors who wish to participate in the Exchange Offers.

If there is any inconsistency between the contents of this Offer Information Memorandum and the Applicable Offer Documents, the contents of the Applicable Offer Documents shall prevail.

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OFFER INFORMATION MEMORANDUM

All capitalised terms are defined in section 1 below.

This document contains information about the African Bank Restructuring, the Exchange Offers, Good Bank and Residual Bank. It should be read in conjunction with, and forms an annexure to, the Applicable Offer Documents. If there is any inconsistency between this Offer Information Memorandum and the Applicable Offer Documents, then the Applicable Offer Documents shall prevail.

Action Required

Please refer to the Applicable Offer Documents for detail about the action required from you if you want to participate in the Exchange Offers.

If you take no action and you are a holder of African Bank EMTNs or DMTNs, your instruments may still be exchanged if an Extraordinary Resolution has been passed in your series of notes. If you take no action and an Extraordinary Resolution has not been passed in your series of African Bank EMTNs or DMTNs, or you take no action and you are a holder of Bilateral Corporate Deposits in African Bank, then you will not participate in the Exchange Offers and you will retain your Existing Debt Instruments in African Bank.

Important Notes and Disclaimers

Although the Curator has taken reasonable care to ensure that the information contained in this document and its Annexures is up to date, complete and correct, the Curator accepts no liability for information that is out of date, incomplete or incorrect. Where any forecasts, projections or forward looking statements are made in this document, such statements are made in good faith based on the information that has been accessible to the Curator as at the date of publication, after consultation with management of African Bank and Good Bank. The Curator does not warrant or make any representation in respect of the correctness or reliability of any forecasts, projections or forward looking statements, or the completeness and accuracy of the assumptions that have been used to prepare such forecasts, projections and forward looking statements. Please also refer to the further financial information disclaimers and qualifications in sections 4 and 5 and in Annexures A and B.

This Offer Information Memorandum should not be construed as advice or a recommendation from the Curator, the Registrar of Banks, SARB, National Treasury, Good Bank, the Consortium and/or any of their respective officers, partners or advisors to support the African Bank Restructuring.

In developing the African Bank Restructuring the Curator has considered and, where appropriate, included input provided by professional advisors representing the Senior Funder Representatives and the Subordinated Funder Representatives. The fees and expenses payable to these professional advisors will be borne and paid proportionately by all Exchanged Funders in the manner explained in sections 3.3.4 (*Senior Advisory Services and Fees*) and 3.4.5 (*Subordinated Advisory Fees*) below. You may rely on the input and advice rendered by these advisors, or you may obtain your own individual advice at your own cost. The contact details of the relevant professional advisors are included in sections 3.3.4 (*Senior Advisory Services and Fees*) and 3.4.5 (*Subordinated Advisory Fees*) below.

Date: 4 February 2016

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List of Annexures

1. DEFINITIONS AND INTERPRETATION

In this Offer Information Memorandum, unless otherwise stated or the context so requires, the words in the first column have the meanings stated opposite them in the second column, words in the singular shall include the plural and vice versa, words denoting one gender include the other and expressions denoting natural persons include juristic persons and associations of persons:

"ABIL"	African Bank Investments Limited (registration number 1946/021193/06), a public company incorporated in accordance with the laws of South Africa and listed on the JSE (placed in business rescue on 5 June 2015);
"ABIL Group"	ABIL together with its Subsidiaries;
"Additional Tier 1 Capital"	additional tier 1 capital for purposes of the Capital Regulations;
"Adjusted For CPI"	the adjustment of an amount to be determined or paid in respect of an Index-Linked Instrument with reference to the difference between the agreed reference point of current inflation and the Base CPI of the instrument, as set out in more detail in the Applicable Offer Documents;
"African Bank" or the "Bank"	African Bank Limited (under Curatorship) (registration number 1975/002526/06), (to be renamed "Residual Debt Services Limited" on or around the Transaction Effective Date) a bank licensed and registered under the Banks Act, a public company incorporated in accordance with the laws of South Africa and a wholly-owned Subsidiary of ABIL;
"African Bank DMTN Programme"	the African Bank ZAR25 billion Domestic Medium Term Note Programme registered with the JSE;
"African Bank EMTN Programme"	the African Bank USD6 billion Euro Medium Term Note programme listed on the LSE and with certain series of notes under the programme listed on the SIX;
"African Bank Restructuring" or "Restructuring"	the resolution of African Bank comprising: (i) the transfer of the Good Bank Business to Good Bank; (ii) the implementation of the Exchange Offers; and (iii) the ancillary transaction steps described in more detail in section 3 below;
"Applicable Offer Documents"	an Exchange Offer Document addressed to the holders of each category of Existing Debt Instruments (including all annexures

	thereto) and, insofar as holders of African Bank EMTNs or DMTNs are concerned, a Notice Convening Meeting;
"Banks Act"	the Banks Act 94 of 1990 (as amended);
"Base Case"	the base case scenario assumed for purposes of preparing the Base Case Forecasts, as described in section 4.6;
"Base Case Forecasts"	prospective financial information in respect of Good Bank during the Base Case Period, as set out in section 4.7 below, read with Annexure A;
"Base Case Period"	1 April 2016 to 30 September 2018;
"Base CPI"	the inflation reference point used for purposes of an Index-Linked Instrument to track changes in inflation from a specific point in time (usually Base CPI is set on the date of issue of an Index-Linked Instrument);
"Basel III"	a set of minimum global standards for banks issued by the Basel Committee on Banking Supervision in December 2010 and revised in July 2011, which includes, amongst other things, changes to capital requirements and the introduction of a Leverage Ratio and liquidity standards;
"Bilateral Corporate Deposits"	collectively all unsubordinated corporate deposits (i.e. deposits that are not Retail Deposits) and other unsubordinated debt instruments not issued under the African Bank DMTN Programme or the African Bank EMTN Programme, comprising predominantly: • PNs, NCDs and other similar instruments issued in dematerialised form and settled through the STRATE system; • PNs and NCDs issued in certificated form and settled directly with the bearer thereof; and • bilateral corporate deposits (other than PNs and NCDs) including call deposits, and fixed and floating rate term deposits that are not Retail Deposits;
"Business Day"	any day other than a Saturday, Sunday or an official public holiday in South Africa;
"Capitalised Call Deposits"	Existing Senior Debt Instruments where the holder has the right to accumulate and capitalise accrued interest, or to demand payment

	thereof (in whole or in part) at any time, which instruments constitute Serviced Instruments for purposes of the Senior Exchange Offers;
"Capital Regulations"	any legislation, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in South Africa in relation to banks registered under the Banks Act and their controlling companies;
"CD Status"	the contractual default status of a loan: a loan at CD1 means that one instalment is in arrears, whereas CD4 means that the aggregate amount in arrears in respect of the loan exceeds the sum of four instalments;
"Cell Captive Shares"	the specific and separate class of cell owner ordinary shares in Guardrisk to be issued to InsureCo, which will enable InsureCo to participate in the risk and economic result of the insurance business introduced to Guardrisk by Good Bank (see section 4.5 below);
"CET Target"	a targeted Common Equity Tier 1 Capital ratio of 28% as at the First Maturity Date, subject to the various assumptions in section 4.6 below;
"CHF"	Swiss francs, being the lawful currency of Switzerland;
"Clearstream"	Clearstream Banking, *société anonyme*;
"Collections Model"	the collections model used to project future recovery of African Bank loans for purposes of the African Bank run-off and liquidation analysis in Annexure B and the Residual Run-Off Analysis for Residual Bank in section 5.4;
"Common Equity Tier 1 Capital"	common equity tier 1 capital for purposes of the Capital Regulations;
"Companies Act"	the Companies Act 71 of 2008 (as amended);
"Consortium"	SARB, GEPF and the Participating Banks;
"Coupon Service Payment"	in respect of each Serviced Instrument which is an Exchanged Debt Instrument: (i) 90% of the total amount of interest accrued on that Serviced Instrument in the ordinary course (i.e. excluding any default or penalty interest) from (and including) the Last IPD up to (but excluding) the Transaction Effective Date, provided that in calculating such accrued interest amount, each Missed Coupon shall be added to the principal amount of the Serviced Instrument (i.e. compounded) with effect from the relevant

	Missed Coupon Date (and in the case of Capitalised Call Deposits, interest shall continue to compound after the Last IPD in accordance with the terms of the deposit); minus
	(ii) that Serviced Instrument's Participation Percentage of the Senior Advisory Fees (please refer to Annexure C for illustrative examples); plus
	(iii) if the relevant Payment Date occurs after the Transaction Effective Date, interest on item (i) minus item (ii) above shall accrue at JIBAR (or in the case of USD denominated EMTNs at LIBOR, or in the case of CHF denominated EMTNs at 0%) with effect from (and including) the Transaction Effective Date up to (but excluding) the relevant Payment Date;
"Curator"	the person appointed by the Minister in terms of section 69 of the Banks Act as the curator of the Bank being, as at the date of this Offer Information Memorandum, Mr Thomas Winterboer;
"Curatorship"	the curatorship of African Bank announced by SARB on 10 August 2014 in terms of section 69 of the Banks Act;
"Curatorship Date"	10 August 2014, being the date on which the Minister placed the Bank under Curatorship;
"Development Finance Institutions"	International Finance Corporation, Société de Promotion et de Participation pour la Coopération Économique S.A. and Deutsche Investitions-Und Entwicklungsgesellschaft mbH;
"Distribution Waterfall"	the priority in which Residual Bank will distribute its collections to its creditors after the Transaction Effective Date, as set out in section 3.6 below;
"DMTN"	domestic medium term note;
"EHL"	Ellerine Holdings Limited (registration number 1968/013402/06), a public company incorporated in accordance with the laws of South Africa and a wholly-owned direct Subsidiary of ABIL (placed in business rescue on 21 August 2014);
"EHL Group"	EHL and its Subsidiaries;
"Ellerine Furnishers"	Ellerine Furnishers Proprietary Limited (registration number 1969/002687/07), a private company incorporated in accordance with

the laws of South Africa and a wholly-owned direct Subsidiary of EHL (placed in business rescue on 7 August 2014);

"EMTN" euro medium term note;

"Equity Settled Amount" the aggregate subscription price of the New HoldCo Shares that must be delivered to Subordinated Funders in terms of the Subordinated Exchange Offer, provided that New HoldCo Shares will be subscribed for at ZAR20 each, being the same price per New HoldCo Share as the price paid by the Consortium in terms of the ZAR10 billion capitalisation of Good Bank (see section 3.1.2);

"Euroclear" Euroclear Bank S.A/N.V.;

"Exchanged Debt Instruments" Existing Debt Instruments that will be exchanged in terms of the Exchange Offers, being instruments in respect of which:

- an Exchange Offer has been made and accepted; and/or
- in the case of a series of Senior DMTNs, Subordinated DMTNs and Senior EMTNs only, Existing Debt Instruments in a series for which an Extraordinary Resolution has been passed;

"Exchanged Funders" Senior Funders and Subordinated Funders whose Existing Debt Instruments are (or will be) exchanged in terms of the Exchange Offers;

"Exchange Offer Document" a document in terms of which a Senior Funder, or Subordinated Funder (as the case may be) is invited to make an Exchange Offer to African Bank, including any programme memoranda, base prospectus, Swiss listing prospectuses, pricing supplements, final terms, exchange instructions and other annexes enclosed with the relevant document;

"Exchange Offers" the Senior Exchange Offers and the Subordinated Exchange Offers;

"Existing Debt Instruments" the Existing Senior Debt Instruments, Other Senior Claims (if any) and Existing Subordinated Debt Instruments;

"Existing Senior Debt Instruments" collectively:

- Senior DMTNs;
- Senior EMTNs;
- Bilateral Corporate Deposits; and

- the Facility Debt,

but specifically excluding all Existing Subordinated Debt Instruments;

"Existing Subordinated Debt Instruments" collectively all debt raised by African Bank where the terms applicable thereto describe such debt as subordinated in certain circumstances, including:

- Subordinated DMTNs;
- Subordinated Bilateral Corporate Deposits; and
- subordinated debt owed to the Development Finance Institutions in terms of subordinated loan facilities,

collectively referred to as "subordinated bonds, debentures and loans" in the notes to the financial statements of African Bank;

"Extraordinary Resolution" in respect of (i) African Bank DMTNs (both senior and subordinated), a resolution passed in favour of the relevant Exchange Offer at a meeting (duly convened and quorate) of the holders of a series of such DMTNs by a majority consisting of not less than 66.67% of the persons voting at such meeting upon a show of hands or if a poll is duly demanded, then by a majority voting percentage of not less than 66.67% of the total vote exercised at such meeting on a poll; and (ii) African Bank EMTNs, a resolution passed at a meeting (duly convened and quorate) of the holders of such EMTNs, by a majority consisting of not less than 75% of the votes exercised on a poll, approving the amendments to the terms of the African Bank EMTNs to facilitate their exchange for New Senior Debt Instruments, Senior Stub Instruments and a Senior Cash Payment, and the making of a Coupon Service Payment;

"Face Value" the amount outstanding in respect of a claim at a certain point in time, including principal and all interest accrued in the ordinary course, whether capitalised or not (but specifically excluding any default or penalty interest), which amount shall in the case of Index-Linked Instruments, always be Adjusted For CPI;

"Facility Debt" the bank term loan in the amount of approximately ZAR450 million owing by African Bank in terms of an unsubordinated loan facility agreement dated on or about 24 February 2014;

"Fair Value Adjustment" the IFRS fair value adjustment in respect of the Good Book, as contemplated in section 4.7.1.1 below;

"Final Settlement Date"	the Final Settlement Date as defined in the relevant Exchange Offer Document;
"Financial Exchange"	any financial or stock exchange(s) on which any of the Existing Debt Instruments were listed as at the Curatorship Date and, if the context so requires, shall include any financial or stock exchange(s) on which New Senior Debt Instruments and/or New Subordinated Debt Instruments may be listed;
"Financial Markets Act"	the Financial Markets Act 19 of 2012 (as amended);
"Financial Year" or "FY"	African Bank and Good Bank's accounting period, ending on 30 September of each year (and by way of example, "FY18" refers to the Financial Year ending 30 September 2018);
"First Maturity Date"	the day after the second anniversary of the Transaction Effective Date, being the date upon which the first New Senior Debt Instruments mature;
"FSB"	the South African Financial Services Board established in terms of the Financial Services Board Act 97 of 1990 (as amended);
"GEMS"	Gilt Edged Management Services Proprietary Limited (registration number 1986/004351/07), a private company incorporated in accordance with the laws of South Africa and a dormant Subsidiary of ABIL;
"GEPF"	the Government Employees Pension Fund, a fund established in terms of the Government Service Pension Act, 1973 and renamed by the Government Employees Pension Law, 1996, represented by the PIC;
"Good Bank"	K2014176899 (South Africa) Limited (registration number 2014/176899/06) (to be renamed "African Bank Limited" on or around the Transaction Effective Date), a newly formed public company incorporated in accordance with the laws of South Africa, being the new registered bank that will acquire the Good Bank Business if the African Bank Restructuring is implemented;
"Good Bank Balance Sheet"	the forecast take-on balance sheet of Good Bank as at 1 April 2016, as discussed in more detail in section 4.7.1 below;
"Good Bank Business"	the Good Book, the Operational Assets, the Retail Deposits and the Operational Liabilities, all to be transferred to Good Bank on the Transaction Effective Date together with the Top-Up Cash Amount, if the African Bank Restructuring is implemented;

"Good Bank Cell"	has the meaning as defined in section 4.5.2;
"Good Bank Indemnity"	the ZAR3 billion 8 year indemnity to be issued by Residual Bank to Good Bank (and guaranteed by SARB) pursuant to which Residual Bank (and failing which, SARB) will indemnify Good Bank in respect of all losses and liabilities suffered or incurred by Good Bank in respect of the Good Bank Business which arise from facts, events, circumstances, acts and/or omissions that exist on the day before the Transaction Effective Date (but excluding losses and liabilities that are or have been taken into account in the calculation of the Top-Up Cash Amount);
"Good Book"	the Selected Loans and the New Loans having: (i) a gross book value of ZAR29.0 billion as at 30 September 2015 and (ii) a forecast gross book value of approximately ZAR29.2 billion as at 1 April 2016 (see section 4.4.1.2 below);
"Guardrisk"	Guardrisk Life Limited (registration number 1999/013922/06), a public company incorporated in accordance with the laws of South Africa and a registered long-term insurer conducting cell captive insurance business in terms of South African law and a wholly owned Subsidiary of MMI Group Limited;
"Hedging Arrangements"	the new hedging contracts and facilities entered into by African Bank during the Interim Period;
"Hedging Liabilities"	all liabilities (whether actual or contingent, and including associated margin payment amounts and collateral liabilities) arising in terms of the Hedging Arrangements, all of which will be transferred to Good Bank without reduction or compromise on the Transaction Effective Date, in accordance with sections 54 and 69(2C) of the Banks Act;
"IFRS"	International Financial Reporting Standards;
"Indemnity Reserve"	an amount of retained cash in Residual Bank equal to the maximum amount that may still be claimed by Good Bank in terms of the Good Bank Indemnity from time to time (or any lesser retained cash amount that SARB may, in its sole and absolute discretion, agree to from time to time);
"Index-Linked Instrument"	an instrument in respect of which the final redemption amount and interest payments are Adjusted For CPI;
"Information Memorandum"	the information memorandum published by the Curator on 9 September 2015, as amended by a supplementary memorandum

	published on 8 December 2015, copies of which can be downloaded at www.africanbank.co.za/about-us/investors;
"Insurance Funding Facility"	the loan facility to be established initially between African Bank and New HoldCo for purposes of funding the Good Bank Cell, which loan facility will be transferred to Good Bank on the Transaction Effective Date as part of the Good Bank Business (see section 4.5.4 below);
"InsureCo"	African Insurance Group Limited (previously K2014177424 (South Africa) Limited), registration number 2014/177424/06, a newly formed public company incorporated in accordance with the laws of South Africa, a wholly owned Subsidiary of New HoldCo, and the company that will own the Cell Captive Shares;
"Interim Period"	the period from (and including) the Curatorship Date up until (but excluding) the Transaction Effective Date;
"IT"	information technology;
"JIBAR"	the Johannesburg Interbank Agreed Rate for a three month period which, for the purposes of determining amounts payable where a Payment Date is later than the Transaction Effective Date, will be determined by African Bank in its sole discretion on the Transaction Effective Date;
"JSE"	the Johannesburg stock exchange, a securities exchange operated by JSE Limited (registration number 2005/022939/06), a public company incorporated in accordance with the laws of South Africa;
"Last IPD"	in respect of: • a Serviced Instrument which is not a Capitalised Call Deposit, the last date on which interest became due and payable in the ordinary course in respect of such instrument prior to the Curatorship Date; • a Serviced Instrument which is a Capitalised Call Deposit, the last date on which interest was paid or capitalised prior to the Curatorship Date;
"LCR"	liquidity coverage ratio, being the ratio of high quality liquid assets to total net liquidity outflows over 30 days, as determined in accordance with Basel III;

"Leverage Ratio"	the ratio of total Tier 1 Capital and reserve funds to total assets (on and off balance sheet), as determined in accordance with Basel III;
"LIBOR"	the three month London Interbank Offer Rate for USD as determined by African Bank in its sole discretion on the Transaction Effective Date;
"LSE"	the London Stock Exchange plc;
"Minister"	the South African Minister of Finance;
"Missed Coupon"	an amount of interest that became due and payable in respect of a Serviced Instrument in the ordinary course (not as a result of default), but that was not paid, which (where relevant) shall be determined as though the ordinary course contractual maturity of such Serviced Instrument was extended until (but excluding) the Transaction Effective Date (i.e. as though the ordinary course interest due dates continued after the ordinary course contractual maturity date of the Serviced Instrument);
"Missed Coupon Date"	the date upon which a Missed Coupon became (or would have become) due and payable in the ordinary course;
"NCA"	the National Credit Act 34 of 2005 (as amended);
"NCDs"	negotiable certificates of deposit;
"NCR"	National Credit Regulator established in terms of the NCA;
"New Debt Instruments"	New Senior Debt Instruments and New Subordinated Debt Instruments in Good Bank;
"New HoldCo"	African Bank Holdings Limited (previously K2014176855 (South Africa) Limited), registration number 2014/176855/06, a newly formed public company incorporated in accordance with the laws of South Africa, being the ultimate holding company of the New HoldCo Group;
"New HoldCo Group"	New HoldCo and its wholly-owned Subsidiaries InsureCo and Good Bank;
"New HoldCo Shares"	ordinary shares with a par value of ZAR0.01 each in New HoldCo;
"New Loans"	all new loans to customers advanced by African Bank during the Interim Period, to the extent that they are still in existence (i.e. not

repaid) as at the Transaction Effective Date (including all new credit card advances);

"New NCR Regulations"	the Regulations on Review of Limitations on Fees and Interest Rates published under the NCA by the South African Department of Trade and Industry on 6 November 2015, as described in more detail in section 4.4.4 below;
"New Senior Debt Instrument"	in respect of: • each Existing Senior Debt Instrument, a corresponding instrument issued by Good Bank on the same principal economic terms as the relevant Existing Senior Debt Instrument, save in respect of tenor and principal amount, which shall be determined as set out in section 3.3.5.1, provided that: (i) in the case of the Facility Debt, the nature of the instrument shall change from a contractual term loan to a corporate deposit; and (ii) in the case of a Capitalised Call Deposit, the nature of the instrument shall change to a fixed term deposit in respect of which all capital will be repayable on the First Maturity Date and all accrued interest will be paid monthly in arrear with effect from the Transaction Effective Date; and • in respect of Other Senior Claims (if any), a corporate deposit in Good Bank offered to the Other Senior Creditors on the basis contemplated in section 3.3.5.3 below;
"New Subordinated Debt Instruments"	new Basel III compliant Tier 2 Capital debt instruments in Good Bank having the terms set out in section 3.4.6 read with the Applicable Offer Documents addressed to Subordinated Funders;
"Non-Performing Loans" or "NPL"	loans with a CD Status of CD4 or worse, referred to in the financial statements as assets that are specifically impaired;
"Notice Convening Meeting"	a notice convening a meeting of the holders of a series of Senior DMTNs, Senior EMTNs or Subordinated DMTNs (as the case may be) for purposes of considering and, if the holders of that series deem fit, approving a resolution: (i) insofar as the Senior EMTNs are concerned, to amend the terms of the relevant series of Senior EMTNs; and (ii) insofar as the Senior DMTNs and Subordinated DMTNs are concerned, to approve the relevant Exchange Offer insofar as it applies to the relevant series;

"Offer Date"	the date on which the first Exchange Offers are launched, being the date of this Offer Information Memorandum;
"Offer Information Memorandum"	this document titled "Offer Information Memorandum", constituting an annexure to the Exchange Offer Documents (and not to be confused with the Information Memorandum and the supplementary memorandum published in respect thereof on 8 December 2015);
"Operating Float"	the operating float to be built up, maintained and replenished by Residual Bank to discharge and provide for its anticipated run-off expenses and day-to-day operational costs after the Transaction Effective Date, the amount of which shall be determined by Residual Bank from time to time (it being recorded for clarity that an initial amount of ZAR500 million is budgeted for this purpose in the Residual Run-Off Analysis);
"Operational Assets"	all the operational assets of African Bank, including its fixed assets, immovable property, assets arising in terms of the Hedging Arrangements (including collateral cash), Operational Contracts, statutory assets, intellectual property and certain intangible assets;
"Operational Contracts"	certain day-to-day operational and trading contracts of African Bank specified in the Sale of Business Agreement, as determined by the Curator, including the Insurance Funding Facility and the Hedging Arrangements (but specifically excluding any other hedging or facility agreements);
"Operational Creditors"	the holders of claims against African Bank in respect of Operational Liabilities;
"Operational Liabilities"	certain specified day-to-day trading and operational liabilities of African Bank as at the Transaction Effective Date, as determined by the Curator, arising from the Operational Contracts to be transferred to Good Bank (including the Hedging Liabilities, but excluding, for the avoidance of doubt, any remaining liabilities arising out of any other hedging or facility agreements) which have not been settled in the ordinary course. Operational Liabilities will be transferred in full (without any deduction) to Good Bank on the Transaction Effective Date in accordance with sections 54 and 69(2C) of the Banks Act, whilst other sundry operational liabilities not specified for transfer will be treated as Other Senior Claims, if timeously proven;
"Other Senior Claim"	an unsubordinated claim against African Bank that has not been discharged as at the Transaction Effective Date and: (i) which is not

an Existing Senior Debt Instrument, Existing Subordinated Debt Instrument, a Retail Deposit or an Operational Liability; and (ii) the existence of which has been proven, at least *prima facie*, as at the date upon which the Curator submits his report to the Minister for purposes of obtaining consent for the African Bank Restructuring in terms of sections 69(2C) and 54 of the Banks Act;

"Other Senior Creditors" holders of Other Senior Claims (if any) - see section 3.3.5.3 below;

"Participating Banks" Absa Bank Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited, and insofar as the subscription for New HoldCo Shares is concerned, may include any of their respective Subsidiaries or other group entities;

"Participation Percentage" the percentage of Senior Advisory Fees or Subordinated Advisory Fees (as the case may be) attributable to an Exchanged Debt Instrument (excluding Other Senior Claims), which shall be calculated:

- in the case of an Existing Subordinated Debt Instrument, by expressing the Face Value of the relevant Exchanged Debt Instrument as at (but excluding) the Curatorship Date as a percentage of the aggregate Face Values as at (but excluding) the Curatorship Date of all the Exchanged Debt Instruments that participate in the Subordinated Exchange Offer; and

- in the case of an Existing Senior Debt Instrument, by expressing the Face Value of the relevant Exchanged Debt Instrument as at (but excluding) the Curatorship Date as a percentage of the aggregate Face Values as at (but excluding) the Curatorship Date of all the Exchanged Debt Instruments that participate in the Senior Exchange Offer (excluding Other Senior Claims),

provided that in performing this calculation, the Face Value of Index-Linked Instruments shall (for the avoidance of doubt) be Adjusted For CPI as at (but excluding) the Curatorship Date;

"Payment Date" the Settlement Date on which the Bank pays, or procures payment of, an amount equal to the Senior Cash Payment, Coupon Service Payment and/or Subordinated Cash Payment (as the case may be) to the relevant clearing systems or Exchanged Funder, as the case may be;

"PIC"	Public Investment Corporation SOC Limited (registration number 2005/009094/06), a public company incorporated in accordance with the laws of South Africa, and acting in its capacity as representative for GEPF;
"PNs"	promissory notes;
"POPI"	Protection of Personal Information Act 4 of 2013 (as amended);
"Principal Amount"	has the meaning ascribed thereto in section 3.3.5.3;
"Registrar of Banks"	the Registrar of Banks designated under section 4 of the Banks Act;
"Regulations Relating to Banks"	Regulations relating to Banks published in Government Gazette No. 35950 of 12 December 2012, as amended, supplemented or replaced from time to time, including the amendment published in Government Notice R309 in Government Gazette 38682 of 10 April 2015;
"Regulatory Capital"	capital that is maintained by a bank in accordance with and/or in excess of the requirements set by SARB as financial regulator, namely (i) Tier 1 Capital (including Common Equity Tier 1 Capital); (ii) Additional Tier 1 Capital (if any); and (iii) Tier 2 Capital;
"Relevant Persons"	African Bank, Good Bank, the Curator, SARB, the Registrar of Banks and any person who controls them or who is an affiliate of them and, in each case, their respective partners, directors, members, employees, agents and representatives (other than the directors of African Bank) as well as the professional and other advisors of the Curator and Good Bank;
"Remaining Portion"	the Face Value of an Existing Subordinated Debt Instrument as at (but excluding) the Transaction Effective Date (Adjusted For CPI in the case of Index-Linked Instruments), minus the sum total of: • the Transferable Portion, plus any interest accrued as at the Transaction Effective Date on New Subordinated Debt Instruments being delivered in exchange for all or any part of the Transferable Portion; and • the Subordinated Cash Payment, calculated without any deduction of Subordinated Advisory Fees or the addition of interest at JIBAR in respect of late payments;
"Repo Rate"	the rate at which SARB lends money to commercial banks in South Africa;

"Residual Bank"	African Bank after the Transaction Effective Date, the sole business and purpose of which shall be to collect the Residual Book and any other cash accruing to it, and to distribute such proceeds (net of costs) to its creditors in the order and in the manner contemplated in section 3.6 below and which will be renamed "Residual Debt Services Limited" on or around the Transaction Effective Date;
"Residual Book"	the loan portfolio retained by Residual Bank after the Transaction Effective Date having: (i) a gross book value of ZAR15.8 billion as at 30 September 2015 (excluding the written-off book), and (ii) a projected gross book value of approximately ZAR11.2 billion as at 1 April 2016;
"Residual Run-Off Analysis"	the projected net collections profile of Residual Bank after the Transaction Effective Date and the resulting projected payments and distributions (if any) that will be made to Residual Bank creditors in accordance with the Distribution Waterfall, which analysis is included in section 5.4 below;
"Retail Deposit Obligations"	obligations in respect of Retail Deposits;
"Retail Depositor"	the holder of a Retail Deposit;
"Retail Deposits"	deposits received by African Bank before the Transaction Effective Date, where such deposits were made in the name of natural persons, and where African Bank relied on the identity numbers or passport numbers of such natural persons, together with other personal documentation required in terms of the Financial Intelligence Centre Act 38 of 2001 (as amended), in order to confirm that such depositors were natural persons (and including, for the avoidance of doubt, any positive balances on credit card facilities extended to natural persons);
"Risk Weighted Assets"	risk weighted assets determined by applying risk weights to balance sheet assets and off-balance sheet assets and commitments according to the relative credit risk of the counterparty. The risk weightings are stipulated under the Regulations Relating to Banks;
"Rolled-Up Instrument"	an Existing Senior Debt Instrument issued on terms that require the coupon to be rolled-up (or capitalised) during the term, and paid in one bullet (together with outstanding capital) on the final repayment date of such instrument, or a zero coupon instrument that is entitled to no interest or coupon payments during its term, but excludes Capitalised Call Deposits;
"SA" or "South Africa"	the Republic of South Africa;

"Sale of Business Agreement"	the sale of business agreement concluded between African Bank and Good Bank pursuant to which African Bank will sell and transfer the Good Bank Business to Good Bank and Good Bank will issue the New Debt Instruments;
"SARB"	the South African Reserve Bank established in terms of the SARB Act;
"SARB Act"	the Reserve Bank Act 90 of 1989 (as amended);
"SARB Guarantee"	the secondary guarantee by SARB of the indemnity obligations of Residual Bank in terms of the Good Bank Indemnity (see section 5.3.2), it being recorded for purposes of clarity that: (i) SARB will only be liable as guarantor in terms of the SARB Guarantee in circumstances where Residual Bank is unable for whatever reason to make the payment as primary obligor under the Good Bank Indemnity; and (ii) SARB's cumulative maximum exposure in terms of the SARB Guarantee and the SARB Indemnity Facility combined shall not exceed ZAR3 billion;
"SARB Indemnity Facility"	the secured indemnity facility in the amount of ZAR3 billion to be provided to Residual Bank by SARB to enable Residual Bank to discharge any potential payment obligations arising in terms of the Good Bank Indemnity until the expiration of the Good Bank Indemnity;
"SARB Restructuring Proposal"	the proposal that was announced in the SARB Statement at the time of the announcement of the Curatorship, which proposal progressed and developed into the African Bank Restructuring;
"SARB Statement"	the media statement regarding the Curatorship that was made by the then Governor of SARB, Ms Gill Marcus, on the Curatorship Date;
"SARB Transaction Loan"	the secured term loan to be provided by SARB to Residual Bank for purposes of funding the Top-Up Cash Amount, Coupon Service Payment, Senior Cash Payment, Subordinated Cash Payment, establishing the Operating Float and discharging other Transaction Effective Date payment obligations of African Bank (including any top-up or true-up payment due by African Bank after the Transaction Effective Date in respect of the Top-Up Cash Amount), to the extent that African Bank's own cash is insufficient, as discussed in section 3.5;
"SARS"	the South African Revenue Service;

"Selected Loans"	a list of loans identified by the Consortium that had a gross book value of approximately ZAR29 billion as at the Curatorship Date, to the extent that such Selected Loans are still in existence (i.e. not repaid) as at the Transaction Effective Date and which includes all advances made in terms of credit card accounts as at the Curatorship Date, to the extent that the relevant credit card facilities are still active as at the Transaction Effective Date;
"Senior Advisory Fees"	advisory fees and expenses actually payable to White & Case (together with any applicable VAT and disbursements) in connection with the African Bank Restructuring, provided that such amount is limited to ZAR16.5 million plus any applicable VAT and disbursements;
"Senior Cash Payment"	a cash payment to be made by African Bank in respect of each Existing Senior Debt Instrument and Other Senior Claim that becomes an Exchanged Debt Instrument, in an amount equal to:

- **Serviced Instruments that are not Index-Linked Instruments or Capitalised Call Deposits**: 10% of the capital or nominal amount of the relevant Serviced Instrument on the day immediately preceding the Transaction Effective Date (i.e. exclusive of interest);

- **Serviced Instruments that are Index-Linked Instruments**: 10% of the capital or nominal amount of the relevant Index-Linked Instrument (i.e. exclusive of interest) on the day immediately preceding the Transaction Effective Date, Adjusted For CPI;

- **Serviced Instruments that are Capitalised Call Deposits**: 10% of the Face Value of the relevant Capitalised Call Deposit on (and including) the Last IPD (i.e. inclusive of interest accrued in the ordinary course);

- **Rolled-Up Instruments**: 10% of the Face Value of the relevant Rolled-Up Instrument on the day immediately preceding the Transaction Effective Date (i.e. inclusive of interest accrued in the ordinary course), minus the Participation Percentage of Senior Advisory Fees attributable to that Rolled-Up Instrument (which shall be deducted and paid over to the relevant advisors and which shall not accrue interest if the Payment Date occurs after the Transaction Effective Date); and

- **Other Senior Claims**: 10% of the Principal Amount of the relevant Other Senior Claim,

provided that if the relevant Payment Date occurs after the Transaction Effective Date, interest shall accrue on the Senior Cash Payment at JIBAR (or in the case of USD denominated EMTNs at LIBOR, or in the case of CHF denominated EMTNs at 0%), with effect from (and including) the Transaction Effective Date up to (but excluding) the relevant Payment Date;

"Senior DMTNs"	senior unsubordinated notes issued in terms of the African Bank DMTN Programme;
"Senior EMTNs"	senior unsubordinated notes issued in terms of the African Bank EMTN Programme;
"Senior Exchange Offer"	an offer that will enable a Senior Funder (or Other Senior Creditor, if applicable) to exchange Existing Senior Debt Instruments (or Other Senior Claims, if applicable) for: • New Senior Debt Instruments in Good Bank; • Senior Stub Instruments in Residual Bank; and • a Senior Cash Payment, and to receive the Coupon Service Payment (in the case of Serviced Instruments only);
"Senior Funder Representatives"	the representatives of a significant number of the Senior Funders (by value), who have agreed non-disclosure terms with the Curator and have been able to engage as a committee in detailed discussions around the terms of the African Bank Restructuring ahead of the publication of the Information Memorandum and this Offer Information Memorandum, and who are advised by White and Case (see section 3.3.4 below for White & Case contact details);
"Senior Funders"	the holders of Existing Senior Debt Instruments;
"Senior Stub Instrument"	a new instrument to be issued by Residual Bank in partial settlement of the Senior Exchange Offer, which instrument will be subject to the terms and conditions set out in section 3.3.6, read with the Applicable Offer Documents;
"Serviced Instrument"	an Existing Senior Debt Instrument issued on terms that require the coupon to be paid in full at regular intervals during the term, and

	includes (for the avoidance of doubt) Index-Linked Instruments in respect of which the coupon is paid at regular intervals and Capitalised Call Deposits;
"Settlement Date(s)"	the Settlement Date(s) as defined in the relevant Exchange Offer Document;
"SIX"	the SIX SIS AG, the Swiss Securities Services Corporation in Olten, Switzerland;
"Stangen"	The Standard General Insurance Company Limited (registration number 1948/029011/06), a public company incorporated in accordance with the laws of South Africa and operating under a long-term insurance licence, being a wholly-owned direct Subsidiary of ABIL;
"STRATE"	Strate Proprietary Limited (registration number 1998/022242/07), a private company incorporated in accordance with the laws of South Africa, being a registered central securities depository in terms of the Financial Markets Act, and which manages the electronic clearing and settlement system for transactions that take place on the JSE, as well as off-market trades;
"Stub Instruments"	the Senior Stub Instruments and the Subordinated Stub Instruments;
"Subordinated Advisory Fees"	the advisory fees and expenses actually payable to Allen & Overy, Baker & McKenzie and Lazard (inclusive of VAT and disbursements) in relation to the African Bank Restructuring, provided that for purposes of the settlement mechanism incorporated in the Subordinated Exchange Offer, such amount is limited to ZAR73 million (which includes a USD denominated payment of USD 2.56 million capped at a maximum ZAR/USD exchange rate of ZAR20 : 1USD), inclusive of VAT and disbursements;
"Subordinated Bilateral Corporate Deposits"	any unlisted debentures (that are not Subordinated DMTNs) issued by African Bank on a bilateral basis, referred to in their terms as being subordinated in certain circumstances;
"Subordinated Cash Payment"	a cash payment to be made by African Bank in respect of each Existing Subordinated Debt Instrument that becomes an Exchanged Debt Instrument, the amount of which shall be calculated in terms of

the formula:

$$SCP = \left[\frac{x}{y} \times 165\,000\,000\right] + n$$

where:

SCP = the Subordinated Cash Payment, rounded down to the nearest full cent;

x = the Face Value of the relevant Existing Subordinated Debt Instrument as at (but excluding) the Offer Date (Adjusted For CPI in the case of Index-Linked Instruments);

y = the aggregate Face Value of all the Existing Subordinated Debt Instruments as at (but excluding) the Offer Date (Adjusted For CPI in the case of Index-Linked Instruments); and

n = interest calculated on $\left[\frac{x}{y} \times 165\,000\,000\right]$ at JIBAR plus 725 basis points with effect from (and including) 1 December 2015 up until (but excluding) the Transaction Effective Date,

provided that:

- the relevant Participation Percentage of the Subordinated Advisory Fees attributable to the relevant Exchanged Debt Instrument ("**Fee Portion**") shall be deducted from the Subordinated Cash Payment on the Transaction Effective Date and shall not accrue interest in terms of the second proviso below; and
- if the relevant Payment Date occurs after the Transaction Effective Date, interest at JIBAR shall accrue on the Subordinated Cash Payment (minus the Fee Portion) with effect from (and including) the Transaction Effective Date up to (but excluding) the relevant Payment Date;

"Subordinated DMTNs" subordinated notes issued in terms of the African Bank DMTN Programme;

"Subordinated Exchange Offer" a non-renounceable offer that will enable Subordinated Funders to:

	• exchange the Transferable Portion of the Existing Subordinated Debt Instruments for New Subordinated Debt Instruments and/or New HoldCo Shares; and • exchange the Remaining Portion of the Existing Subordinated Debt Instruments for Subordinated Stub Instruments, and to receive the Subordinated Cash Payment;
"Subordinated Funders"	the holders of Existing Subordinated Debt Instruments;
"Subordinated Funder Representatives"	the representatives of a significant number of the Subordinated Funders (by value), who have signed non-disclosure arrangements with the Curator to enable them to have detailed discussions around the terms of the African Bank Restructuring ahead of the publication of the Information Memorandum and this Offer Information Memorandum. The tier 2 group, representing holders of Subordinated DMTNs and Subordinated Bilateral Corporate Deposits, is advised by Allen & Overy and Lazard and the Development Finance Institutions are advised by Baker and McKenzie (see section 3.4.5 below for advisors' contact details);
"Subordinated Stub Instrument"	a new instrument to be issued by Residual Bank in partial settlement of the Subordinated Exchange Offer, which instrument will be subject to the terms and conditions set out in section 3.4.8, read with the Applicable Offer Documents;
"Subsidiary"	has the meaning determined in accordance with section 3 of the Companies Act;
"Suspensive Conditions"	the various suspensive conditions to the completion of the African Bank Restructuring listed in section 3.7 below;
"Tier 1 Capital"	tier 1 capital for purposes of the Capital Regulations;
"Tier 2 Capital"	tier 2 capital for purposes of the Capital Regulations;
"Top-Up Cash Amount"	the cash amount to be transferred by African Bank to Good Bank as part of the sale of the Good Bank Business for purposes of balancing the assets of Good Bank (including goodwill) and the liabilities issued and/or assumed (including liabilities arising in terms of the New Debt Instruments) as at the Transaction Effective Date, which amount is forecast to be ZAR7.8 billion, subject to verification, review and potential adjustment in terms of a true-up process to be completed after the Transaction Effective Date. This amount excludes collateral

	cash and statutory assets that are transferred to Good Bank separately and is before any reallocation of surplus statutory assets on formation of the Good Bank Balance Sheet;
"Total Capital Adequacy Ratio"	total capital (as contemplated in the Capital Regulations) divided by Risk Weighted Assets, expressed as a percentage;
"Transaction Effective Date"	the date of implementation of the African Bank Restructuring, being 00:01 on Monday 4 April 2016 or such earlier or later date as the Curator may announce, provided that the Curator shall not be entitled to extend the Transaction Effective Date beyond 30 May 2016 without the written consent of all the Consortium members. For purposes of the Base Case Forecasts the Transaction Effective Date is assumed to be 1 April 2016;
"Transferable Portion"	the portion of the Face Value of each Existing Subordinated Debt Instrument that may be exchanged on a Rand-for-Rand basis for New Subordinated Debt Instruments and/or New HoldCo Shares, which portion is calculated in terms of the formula:

$$TP = \left(\frac{x}{y}\right) \times 1\,485\,000\,000$$

where:

TP = the Transferable Portion of the Existing Subordinated Debt Instrument, rounded down to the nearest full cent;

x = the Face Value of the relevant Existing Subordinated Debt Instrument as at (but excluding) the Offer Date (Adjusted For CPI in the case of Index-Linked Instruments); and

y = the aggregate Face Value of all the Existing Subordinated Debt Instruments as at (but excluding) the Offer Date (Adjusted For CPI in the case of Index-Linked Instruments);

"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland;
"United States" or "U.S."	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"USD"	United States Dollars, being the lawful currency of the United States;
"VAT"	value-added tax; and
"ZAR" or "Rand" or "R"	South African Rands.

2. INTRODUCTION AND BACKGROUND

On 10 August 2014, African Bank was placed under Curatorship and Mr Thomas Winterboer of PricewaterhouseCoopers South Africa was appointed as Curator. At the same time, the SARB Statement communicated the SARB Restructuring Proposal to the market. In the months following the Curatorship Date, significant time was spent to further develop the SARB Restructuring Proposal and a detailed restructuring proposal was published for comment on 9 September 2015 in the Information Memorandum. A supplementary memorandum was published for comment on 8 December 2015.

2.1 Background to and Rationale for the African Bank Restructuring

In the months leading up to Curatorship, the Bank's listed parent company, ABIL, announced a series of financial losses prompted by significantly deteriorating profitability within African Bank as a result of substantially higher provisions arising from Non-Performing Loans and declining collections from its loan book.

In addition, the Bank's sister company and business partner, Ellerine Furnishers, was placed in business rescue on 7 August 2014 in accordance with Chapter 6 of the Companies Act. EHL, the holding company of Ellerine Furnishers, was placed in business rescue on 21 August 2014. At that stage the Bank had advanced a loan of approximately ZAR1.4 billion to EHL and the prospects of recovery of that loan were low.

The events leading up to the announcement of Curatorship can be summarised as follows:

- African Bank experienced rapid growth in its loan book after 2007. The average loan size increased from ZAR4 710 in 2006 to ZAR20 346 in 2014 and the average loan term increased from 21 months in 2006 to 54 months in 2014. African Bank encountered substantial difficulties in recent years and the quality of its loan book began to deteriorate. Credit impairments increased materially and there was a significant and rapid erosion of its capital base during 2013 and 2014.

- For the 18 months immediately prior to Curatorship, ABIL and African Bank reported additional bad and doubtful debt provisions and deteriorating profits. On 6 August 2014 the board of directors of ABIL announced the need to raise a further ZAR8.5 billion of new capital only eight months after the ZAR5.5 billion rights issue to shareholders in December 2013. The further capital required was substantial compared to the ABIL Group's market capitalisation of about ZAR10.3 billion at the time. Repeated profit warnings and requests for substantial capital during the 18 months preceding Curatorship resulted in a loss of investor confidence in the ABIL Group.

- The EHL Group, which was acquired in 2008 for the purpose of providing additional routes to the market for the group's loan and insurance products, continued to make losses in 2014. The performance of the EHL Group put additional pressure on the Bank to provide credit to EHL customers to promote sales, and on ABIL and the Bank to fund the losses of the EHL Group. The EHL losses weakened the capital base of the ABIL Group and impacted upon its ability to support African Bank. Efforts by ABIL management to dispose of EHL (and in particular its main operating Subsidiary, Ellerine Furnishers) did not yield any positive results and the best offer received would have required ABIL to contribute an additional ZAR3 billion to EHL before it could be transferred at nil consideration. The management of the Bank concluded that further funding of EHL in terms of an increased intra-group loan facility was unjustified and this resulted in the Ellerine Furnishers' board of directors applying successfully for business rescue on 7 August 2014. EHL was placed in business rescue on 21 August 2014.

- The Bank's funding model relied extensively on wholesale market funding and its deteriorating performance made it increasingly difficult to renew and raise funding in the debt capital markets. The Bank's inability to renew or replace wholesale funding upon maturity contributed to its growing liquidity crisis.

SARB had been monitoring the affairs of African Bank with increasing concern and focus in the months preceding Curatorship and concluded that it was in the best interests of the Bank's creditors, staff members and the South African banking and financial services sector as a whole, to seek a resolution for African Bank that would enable it, if possible, to continue its business.

Curatorship would provide relief and additional time to resolve the financial problems of the Bank because: (i) the Bank's obligations to repay its creditors could be suspended for the duration of Curatorship; and (ii) the Bank could continue to operate as a bank despite Regulatory Capital being below the thresholds that the SARB would ordinarily require.

In making the decision to place the Bank under Curatorship, SARB was influenced by the following factors:

- African Bank provides lending to a large segment of society in South Africa that is not generally served by the financial services sector;

- African Bank provided employment for a workforce of more than 5 500 staff members as at the Curatorship Date;

- a substantial component of the financial services sector in South Africa (such as money-market, fixed income and other funds) had exposure to African Bank, leading to possible contagion and system stability concerns if the Bank was left to collapse; and

- certain elements of the Bank's business had the potential to remain viable in the long term.

The Consortium subsequently agreed to provide underwriting support for the Good Bank Business on condition that it would be effectively separated from the elements of the Bank that could continue to create losses and Regulatory Capital erosion. This resulted in the SARB Restructuring Proposal which was centred around the creation of a new Good Bank that would acquire and continue to conduct the Good Bank Business.

For Good Bank to become a successful concern it would need to be adequately capitalised and its overall funding liabilities would need to be reduced and extended.

The Consortium has agreed to capitalise the New HoldCo Group (and consequently Good Bank) with ZAR10 billion immediately before the Transaction Effective Date. This equity together with the Top-Up Cash Amount that will be transferred to Good Bank as part of the African Bank Restructuring will result in a liquid and well-capitalised new bank.

Funding liabilities will be reduced through the Exchange Offer mechanism. The Exchange Offers effectively result in: (i) Good Bank's senior funding liabilities being limited to 80% of African Bank's senior funding liabilities as at the Curatorship Date; and (ii) no more than ZAR1.485 billion of subordinated funding instruments being issued by Good Bank on the Transaction Effective Date (whereas Good Bank owed approximately ZAR4.4 billion to Subordinated Funders as at the Curatorship Date).

To afford Good Bank a reasonable opportunity to build up a track record and trading history before it needs to raise new capital, New Senior Debt Instruments will only mature from the second anniversary of the Transaction Effective Date onwards. The New Subordinated Debt Instruments will only mature ten years after the Transaction Effective Date, but Good Bank could seek redemption thereof after 5 years and one day after the date of issue thereof, subject to compliance with the Regulations Relating to Banks and the consent of the Registrar of Banks.

The rationale for the African Bank Restructuring is:

- to provide a reasonable prospect of a higher recovery for creditors and funders of African Bank than could be achieved through a winding-up (see Annexure B);
- to provide a higher level of certainty and stability to creditors and funders of African Bank;
- to salvage the Good Bank Business as a going concern;
- to ensure continued employment for a substantial number of staff members; and
- to minimise the impact of African Bank's distressed financial position on the money-market funds and wider financial services sector in South Africa.

2.2 The Information Memorandum

The Information Memorandum contained detail about: (i) the background to Curatorship; (ii) the development of the SARB Restructuring Proposal into the African Bank Restructuring; (iii) the alternative solutions that have been considered by the Curator, under direction and supervision of the Registrar of Banks; (iv) a detailed summary of the transaction proposed for the restructuring of African Bank; (v) prospective financial information in respect of African Bank, Good Bank and Residual Bank; and (vi) a liquidation analysis projecting the potential outcome for creditors if African Bank ceases to trade and no restructuring proposal is implemented. A copy of the Information Memorandum can be downloaded at www.africanbank.co.za/about-us/investors.

2.3 Supplement to the Information Memorandum

Following the publication of the Information Memorandum on 9 September 2015:

(i) the African Bank financial statements for FY15 were published;

(ii) after engagement with the Senior Funder Representatives and the Consortium, SARB, Good Bank and African Bank agreed to reduce the amount of the Good Bank Indemnity from ZAR5 billion to ZAR3 billion. It was also agreed that the Good Bank Indemnity would expire on the eighth anniversary of the Transaction Effective Date, whereas the Information Memorandum was drafted on the assumption that the Good Bank Indemnity would be perpetual in nature;

(iii) the acquisition of Stangen by African Bank did not proceed as a result of non-fulfilment of suspensive conditions and the management of African Bank and Good Bank embarked on the implementation of a cell captive insurance arrangement (for further detail see section 4.5 below);

(iv) the New NCR Regulations were published; and

(v) as part of the ongoing process of reviewing and updating the Base Case assumptions and the Base Case Forecasts, it has been decided (after consultation with the Senior Funder Representatives and the Subordinated Funder Representatives) to include the Senior Cash Payment and the Subordinated Cash Payment as a new feature of the Exchange Offers. A return of cash to participating funding creditors as part of the Exchange Offers will reduce the aggregate nominal amount of the New Debt Instruments in Good Bank, as well as the amount of cash to be transferred by Residual Bank to Good Bank on the Transaction Effective Date (the Top-Up Cash Amount), by roughly 10%.

A supplementary memorandum was published on 8 December 2015 to inform interested parties about the developments listed above and to explain the impact thereof on the information previously contained in the Information Memorandum.

In addition, relevant financial information and prospective financial information previously included in the Information Memorandum based on an illustrative Transaction Effective Date of 1 October 2015 were updated in the supplementary memorandum to take the actual FY15 financial results into account and to prepare forecasts based on an assumed Transaction Effective Date of 1 April 2016.

Interested parties were allowed up until 8 January 2016 to provide input in respect of the revised financial forecasts and the new proposed cash back offer. A copy of the supplementary memorandum can be downloaded at www.africanbank.co.za/about-us/investors.

2.4 Launch of Exchange Offers

The Curator has engaged with the Registrar of Banks following the developments referred to in section 2.3 above and has been directed to proceed with the African Bank Restructuring on the basis set out in section 3 of this Offer Information Memorandum.

The only material amendment that has been made to the terms of the Exchange Offers as described in the Information Memorandum on 9 September 2015 is that:

- Senior Funders and Other Senior Creditors whose instruments are exchanged will now: (i) exchange 80% of their claim amount against African Bank for New Senior Debt Instruments (previously 90%); and (ii) receive a Senior Cash Payment as part of the settlement mechanism of the Senior Exchange Offer; and
- Subordinated Funders whose instruments are exchanged: (i) will now receive a Subordinated Cash Payment which effectively represents their respective proportionate shares in ZAR165 million (previously there was no

cash component); and (ii) their proportionate share of the New Subordinated Debt Instruments and/or New HoldCo Shares will be calculated with reference to a new aggregate threshold of ZAR1.485 billion (previously ZAR1.65 billion).

2.5 Effect of Exchange Offers

The Exchange Offers provide the opportunity to:

- **Senior Funders** to exchange their existing claims in African Bank for New Senior Debt Instruments issued by a well-capitalised and well-funded Good Bank, Senior Stub Instruments in Residual Bank and a Senior Cash Payment. In the case of Serviced Instruments only, a Coupon Service Payment will also be made, effectively servicing 90% of the interest accrued during Curatorship. Holders of Rolled-Up Instruments will not receive a Coupon Service Payment, but 90% of interest accrued in the ordinary course as at the Transaction Effective Date will be settled by: (i) the inclusion and capitalisation of 80% thereof in the nominal amount of the corresponding New Senior Debt Instrument issued by Good Bank; and (ii) the inclusion of 10% of such accrued interest in the Senior Cash Payment;

- **Subordinated Funders** to: (i) exchange the Transferable Portion of their Existing Subordinated Debt Instruments for New Subordinated Debt Instruments and/or New HoldCo Shares; (ii) exchange the Remaining Portion of their existing claims for Subordinated Stub Instruments; and (iii) receive the Subordinated Cash Payment.

The detail of the various Exchange Offers is contained in the Applicable Offer Documents. Section 3 below provides an overall summary of the African Bank Restructuring, including the various Exchange Offers.

2.6 Contents of Offer Information Memorandum

This Offer Information Memorandum contains general information relevant to all Exchange Offers and is sub-divided into the following sections:

- section 3 provides a general overview of the African Bank Restructuring;

- section 4 contains information about Good Bank; and

- section 5 contains information about Residual Bank.

Four Annexures are attached to this document:

- Annexure A contains financial information in respect of African Bank and Good Bank;

- Annexure B contains a liquidation analysis that illustrates the projected impact on creditors if the African Bank Restructuring does not proceed and African Bank commences a winding up process on 1 April 2016;

- Annexure C contains updated illustrative examples of the effect of the Exchange Offers on different Existing Debt Instruments; and

- Annexure D highlights certain risk factors that should be taken into account when the Exchange Offers are considered.

This Offer Information Memorandum is an annexure to the Applicable Offer Documents and must be read in conjunction with, and subject to, the Applicable Offer Documents. The Applicable Offer Documents contain a timetable for the relevant Exchange Offers as well as an explanation of the steps that must be taken by funders and Other Senior Creditors who wish to participate in the Exchange Offers.

If there is any inconsistency between the contents of this Offer Information Memorandum and the Applicable Offer Documents, the contents of the Applicable Offer Documents shall prevail.

3. THE AFRICAN BANK RESTRUCTURING

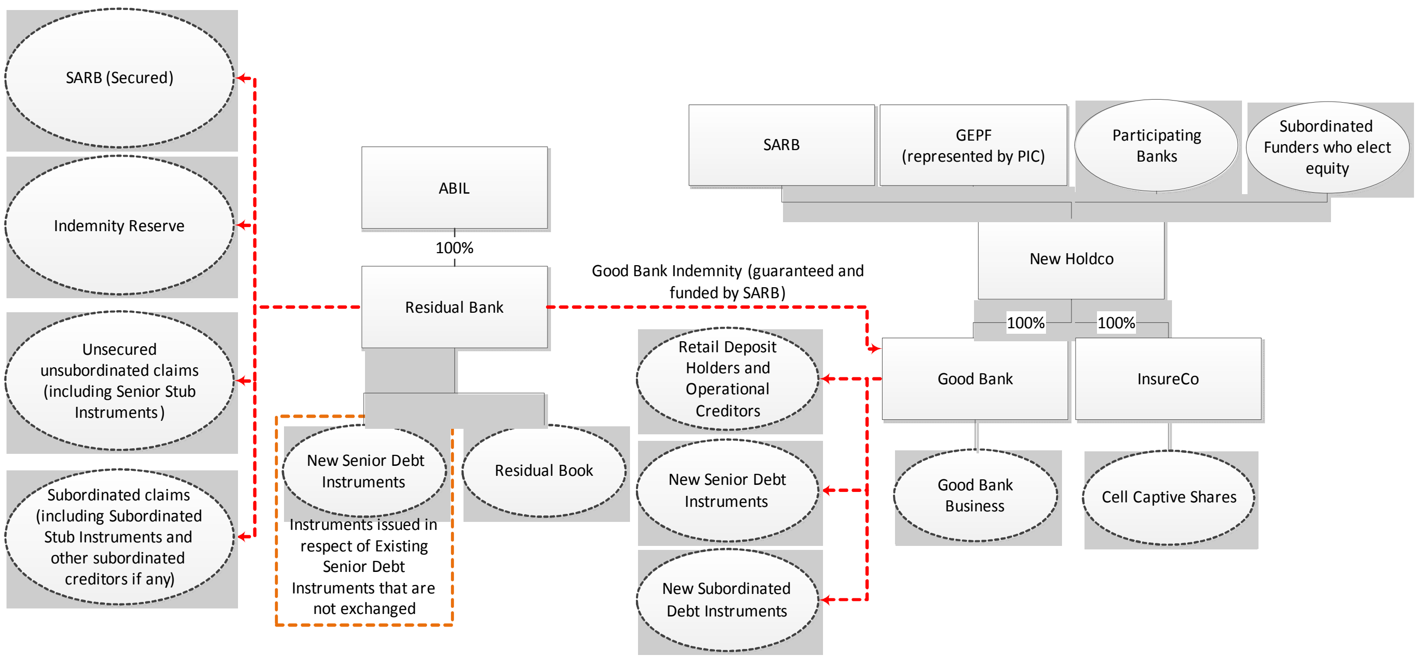
The African Bank Restructuring entails:

(i) the creation of Good Bank to acquire the Good Bank Business (including the Retail Deposit Obligations and Operational Liabilities). All contracts of employment will be transferred to Good Bank on the Transaction Effective Date; and

(ii) the settlement of participating Senior Funders, Other Senior Creditors and Subordinated Funders through an Exchange Offer process that will result in them acquiring New Debt Instruments in Good Bank and Stub Instruments in Residual Bank, together with certain cash payments.

For illustrative examples of the impact of the Exchange Offers on different debt instruments, please refer to Annexure C.

The end result of the African Bank Restructuring is illustrated by the organogram below:



3.1 Executive summary

The salient terms of the African Bank Restructuring can be summarised as follows:

3.1.1 *New HoldCo Group*

The New HoldCo Group will be established comprising: (i) New HoldCo as the new group holding company; (ii) InsureCo as the holder of the Cell Captive Shares; and (iii) Good Bank, which will acquire the Good Bank Business from African Bank.

3.1.2 *Capitalisation*

The Consortium will, shortly before the Transaction Effective Date and subject to the Suspensive Condition in section 3.7.7, capitalise New HoldCo with ZAR10 billion of equity in the following proportions:

- SARB: ZAR5 billion;
- GEPF: ZAR2.5 billion;
- Absa Bank Limited: ZAR495 million;
- Nedbank Limited: ZAR410 million;
- FirstRand Bank Limited: ZAR655 million;
- Investec Bank Limited: ZAR245 million;
- The Standard Bank of South Africa Limited: ZAR595 million; and
- Capitec Bank Limited: ZAR100 million.

This equity capital will enable New HoldCo to capitalise Good Bank with an equivalent ZAR10 billion by the Transaction Effective Date.

3.1.3 *Exchange Offers*

The Exchange Offers will, upon implementation, have the following effect for those funders who support the Exchange Offers or who are exchanged by Extraordinary Resolution:

- Existing Senior Debt Instruments and Other Senior Claims will be exchanged for New Senior Debt Instruments in Good Bank, Senior Stub Instruments in Residual Bank and a Senior Cash Payment. In addition, holders of Serviced Instruments that are exchanged will receive a Coupon Service Payment;
- Existing Subordinated Debt Instruments will be exchanged for: (i) New Subordinated Debt Instruments and/or New HoldCo Shares in respect of the Transferable Portion (as the relevant Subordinated Funder may elect); and (ii) a Subordinated Stub Instrument in respect of the Remaining Portion. In addition, African Bank will pay the Subordinated Cash Payment to those Subordinated Funders whose instruments are exchanged; and
- Exchanged Funders will retain no further claims of any nature whatsoever in relation to their Exchanged Debt Instruments against the Relevant Persons.

All Exchange Offers will be conditional upon the African Bank Restructuring becoming unconditional and will be implemented on the Settlement Date(s). In addition, the Subordinated Exchange Offer will be subject to the suspensive condition referred to in section 3.4.3 below.

African Bank will apply to delist any of its EMTNs still in issue and not exchanged pursuant to the Exchange Offers on or shortly after the Final Settlement Date. African Bank will also seek approval from holders of African Bank DMTNs for the deregistration of the African Bank DMTN Programme together with a delisting of all remaining DMTNs still in issue. If approved, the delisting will be effected on or about the Transaction Effective Date.

3.1.4 *Transfer of the Good Bank Business*

Good Bank will acquire the Good Bank Business from African Bank on the Transaction Effective Date.

The Sale of Business Agreement provides for:

- the transfer of the Good Book;
- the transfer of the Operational Assets and Operational Contracts;
- the transfer of the Top-Up Cash Amount;
- the assumption by Good Bank of the Retail Deposit Obligations and Operational Liabilities; and
- the issue by Good Bank of New Senior Debt Instruments and New Subordinated Debt Instruments in consideration for the acquisition of the Good Bank Business.

After implementation of the sale (and particularly the issue of the New Debt Instruments to African Bank), African Bank will be in a position to discharge its settlement obligations in terms of the Exchange Offers.

3.1.5 *SARB Support*

SARB will financially support the African Bank Restructuring by:

- subscribing for ZAR5 billion of equity in New HoldCo (subject to various Suspensive Conditions, including Ministerial consent);
- providing the SARB Transaction Loan to African Bank to enable African Bank to pay its various Transaction Effective Date expenses as discussed in section 5.1.3.3 below, to the extent that African Bank's own cash resources are insufficient; and
- providing the SARB Indemnity Facility to Residual Bank and guaranteeing the obligations of Residual Bank under the Good Bank Indemnity. The maximum contingent exposure of SARB in terms of the SARB Indemnity Facility and the Good Bank Indemnity combined is ZAR3 billion.

3.1.6 *Collection of Residual Book*

After the Transaction Effective Date, Residual Bank will retain the Residual Book and distribute collection proceeds to its creditors in accordance with the Distribution Waterfall.

Based on various assumptions, the Residual Run-Off Analysis currently forecasts: (i) a reasonable prospect of a portion of the claims of unsubordinated creditors of Residual Bank being paid if no claim is made under the Good Bank Indemnity; and (ii) no reasonable prospect of any distributions to unsubordinated creditors if the Good Bank Indemnity is called in full. Actual recoveries will however depend, amongst other things, on the collection profile of the Residual Book. Please refer to section 5 below for further detail about the Residual Run-Off Analysis.

Good Bank will be appointed to collect the Residual Book in return for a market related fee - see section 5.2.2 below for more detail.

3.1.7 *Suspensive Conditions*

The Exchange Offers and the Sale of Business Agreement are subject to the suspensive conditions listed in section 3.7 below (which include Ministerial consent in terms of the Banks Act and the SARB Act).

The Subordinated Exchange Offers are subject to the further suspensive condition referred to in section 3.4.3 below. The African Bank Restructuring may proceed without the implementation of the Subordinated Exchange Offers if the relevant condition is not fulfilled.

3.2 Sale of Good Bank Business

3.2.1 *Assets and Liabilities Transferred*

African Bank will sell, assign and transfer the following contracts, assets and liabilities to Good Bank on the Transaction Effective Date:

- the Good Book;
- the Operational Assets and Operational Contracts;
- the Top-Up Cash Amount; and
- the Retail Deposit Obligations and Operational Liabilities, all of which will be transferred without compromise, reduction or amendment.

3.2.2 *Purchase Consideration: Assumption of liabilities and issue of New Debt Instruments*

Good Bank will, in consideration for acquiring the assets listed above: (i) assume 100% of the Retail Deposit Obligations and Operational Liabilities; and (ii) issue to African Bank a range of New Senior Debt Instruments and New Subordinated Debt Instruments.

The New Debt Instruments will be issued on the Transaction Effective Date and will be delivered to Exchanged Funders on the Settlement Date(s).

Interest on the New Subordinated Debt Instruments will accrue from (and including) 1 December 2015 and all accrued interest as at but excluding the Transaction Effective Date will be paid by Good Bank in full on the Transaction

Effective Date. If payment of such accrued interest is not made or procured to the relevant clearing systems or Exchanged Funder, as the case may be, on the Transaction Effective Date, interest at JIBAR shall accrue with effect from (and including) the Transaction Effective Date up until (but excluding) the date on which payment is made to the relevant clearing system or Exchanged Funder (as the case may be), and shall be payable by Residual Bank.

Interest on all other New Debt Instruments will accrue from (and including) the Transaction Effective Date.

3.2.2.1 New Senior Debt Instruments

Upon implementation of the Sale of Business Agreement, Good Bank will issue New Senior Debt Instruments corresponding to each Existing Senior Debt Instrument in African Bank, regardless of whether the relevant Existing Senior Debt Instruments will be exchanged or not. As a result, Residual Bank may retain some New Senior Debt Instruments after settlement of the Senior Exchange Offers if less than 100% of the Existing Senior Debt Instruments are exchanged. Good Bank will however only issue a New Senior Debt Instrument in respect of an Other Senior Claim if the relevant creditor accepts the Senior Exchange Offer.

3.2.2.2 New Subordinated Debt Instruments

Good Bank will only issue New Subordinated Debt Instruments in respect of those Existing Subordinated Debt Instruments that will be exchanged in terms of the Subordinated Exchange Offer for New Subordinated Debt Instruments, rounded up to the nearest million. Residual Bank will therefore not retain any significant portion of the New Subordinated Debt Instruments after settlement of the Subordinated Exchange Offer because all New Subordinated Debt Instruments (excluding any portion resulting from the rounding up of the aggregate nominal value of the New Subordinated Debt Instrument) will be delivered to the relevant Exchanged Funders.

3.2.3 *Top-Up Cash Amount*

African Bank is obliged to transfer the Top-Up Cash Amount to Good Bank as part of the transfer of the Good Bank Business. The Top-Up Cash Amount, together with the ZAR10 billion equity contributed by the Consortium, will result in Good Bank having a highly liquid opening balance sheet as at the Transaction Effective Date - see section 4.7.1 below.

The Top-Up Cash Amount is calculated as the amount by which:

- the aggregate Face Value of the liabilities issued, and the total amount outstanding in respect of the liabilities assumed, by Good Bank as at the Transaction Effective Date (Adjusted For CPI in the case of Index-Linked Instruments); exceeds
- the IFRS fair value of the Good Book, Operational Assets and the goodwill attaching to the Good Bank Business.

In the Base Case Forecasts it is forecast that the Top-Up Cash Amount will be ZAR7.8 billion as at the Transaction Effective Date ("the **Provisional Top-Up Cash Amount**"). This excludes forecast collateral cash of approximately ZAR5.0 billion held in terms of the Hedging Arrangements and forecast Statutory Assets of approximately ZAR3.2 billion (before adjusting for surplus statutory assets held on the formation of Good Bank), which will also be transferred to Good Bank as part of the Operational Assets. The Provisional Top-Up Cash Amount will be reviewed by Good Bank and Residual Bank after the transfer of the Good Bank Business and in the case of a shortfall, Residual Bank will supplement the Provisional Top-Up Cash Amount with further cash. Likewise, if the Provisional Top-Up Cash Amount exceeds the final Top-Up Cash Amount, Good Bank will pay the appropriate refund to Residual Bank.

The Top-Up Cash Amount and the various other Transaction Effective Date expenses and obligations will be funded from African Bank's own cash resources and the shortfall will be drawn from the SARB Transaction Loan (see section 5.1.3.3).

The assets transferred to Good Bank plus the strong opening cash balance (i.e. the sum total of the Top-Up Cash Amount and the ZAR10 billion Consortium equity) will afford Good Bank a reasonable prospect of achieving the CET Target, based on the Base Case Forecasts discussed in section 4.7.2 below.

3.2.4 *Staff members*

All African Bank staff members as at the Transaction Effective Date will be transferred to Good Bank in terms of section 197 of the Labour Relations Act 66 of 1995 (as amended). The effect of section 197 is that:

- all staff members are automatically transferred to Good Bank on their existing terms of appointment and Good Bank is substituted in the place of African Bank in respect of all contracts of employment in existence immediately before the date of transfer. Staff members will be transferred to Good Bank without the need for new employment contracts between the staff members and Good Bank, and the consent of the employee is not a requirement to effect such a transfer; and

- all the rights and obligations between the old employer (African Bank) and an employee, and anything done before the Transaction Effective Date by or in relation to the old employer (African Bank) is considered to have been done by or in relation to the new employer (Good Bank). The transfer does not interrupt an employee's continuity of employment.

Staff members do not have to take any action to participate in the African Bank Restructuring as their transfer to Good Bank will occur automatically by operation of law. Good Bank will, as part of the Operational Liabilities, assume 100% of the leave, severance pay and other obligations accrued for the benefit of staff since the original dates of commencement of their employment at African Bank.

3.2.5 *Retail Depositors*

All Retail Deposit Obligations will be automatically transferred to Good Bank on the Transaction Effective Date in terms of sections 69(2C) and 54 of the Banks Act. No consent or further action is required from Retail Depositors to effect the transfer of their Retail Deposits from African Bank to Good Bank.

From the perspective of a Retail Depositor, all rights and obligations in terms of the relevant Retail Deposit will continue in effect after the Transaction Effective Date, un-amended and as if the relevant Retail Deposit was placed with Good Bank from day one. A Retail Depositor will not retain any rights against African Bank and his only recourse in respect of the Retail Deposit will be against Good Bank.

If the African Bank Restructuring fails and African Bank is subjected to a winding-up process, then SARB will offer to acquire all the Retail Deposit Obligations at the relevant amount outstanding (i.e. they will effectively be repaid in full by SARB).

3.2.6 *Operational Creditors*

The Operational Liabilities and Operational Contracts will be transferred to Good Bank on the Transaction Effective Date in terms of sections 69(2C) and 54 of the Banks Act. No consent or further action is required from these Operational Creditors to effect the transfer and assignment of their Operational Contracts from African Bank to Good Bank. The Operational Liabilities and Operational Contracts will transfer without any amendment to their terms as at the Transaction Effective Date.

If the African Bank Restructuring fails and African Bank is subjected to a winding-up process, then Operational Creditors will rank *pari passu* with all other unsubordinated creditors of African Bank (please see Annexure B for the winding-up analysis).

3.3 Senior Exchange Offers

3.3.1 *Process*

Before the Transaction Effective Date, African Bank will invite all Senior Funders and Other Senior Creditors to participate in the Senior Exchange Offers on the basis set out in the relevant Exchange Offer Documents addressed to each group.

In the case of Senior DMTNs and Senior EMTNs, African Bank will seek the support of Senior Funders for the relevant Senior Exchange Offers through a one-on-one exchange offer process coupled with senior noteholder meetings on a series by series basis. If the majority required for an Extraordinary Resolution in any series of African Bank DMTNs or EMTNs:

- votes in favour of the Extraordinary Resolution, then all the notes in the relevant series will be exchanged under the same terms as the Senior Exchange Offer;

- do not vote in favour of the Extraordinary Resolution, then only Existing Senior Debt Instruments in respect of which the Senior Exchange Offer was accepted, will be exchanged and discharged in the manner set out below.

Senior Exchange Offers in respect of Senior Bilateral Corporate Deposits, the Facility Debt and the Other Senior Claims (if any) will be facilitated by African Bank on a one-on-one basis and will require the relevant funder's or creditor's support. Where a Senior Bilateral Corporate Deposit is held in the STRATE system, the Senior Exchange Offer in respect of such deposit will be made through the STRATE system.

The New Senior Debt Instruments and Senior Stub Instruments are only available for issue in jurisdictions in which, and to persons to whom, it is lawful to offer and issue the relevant instruments under applicable laws.

Please refer to the Applicable Offer Documents for more detail about the Senior Exchange Offer process.

3.3.2 *Senior Exchange Offer conditions*

No Senior Exchange Offer will be implemented, and no Existing Senior Debt Instrument will be exchanged, unless the suspensive conditions listed in section 3.7 below are timeously fulfilled.

3.3.3 *Effect of Senior Exchange Offer*

3.3.3.1 <u>Full Settlement and Discharge</u>

On implementation of a Senior Exchange Offer, African Bank will fully and finally discharge all of its obligations in terms of the relevant Existing Senior Debt Instrument or Other Senior Claim, as the case may be, by delivering the following assets and cash to the Senior Funder or Other Senior Creditor, as the case may be, on the Settlement Date(s):

- a New Senior Debt Instrument;
- subject to certain eligibility criteria, a Senior Stub Instrument in Residual Bank (for the avoidance of doubt: if eligibility criteria are not met, the relevant Existing Senior Debt Instrument will still be exchanged and discharged in full through the delivery of the other assets and cash contemplated in this section 3.3.3.1);
- a Senior Cash Payment; and
- in respect of Serviced Instruments only, a Coupon Service Payment.

Holders of Rolled-Up Instruments will not receive a Coupon Service Payment (even if they are exchanged), but 90% of the interest accrued but unpaid on Rolled-Up Instruments as at the Transaction Effective Date will be settled by: (i) the inclusion and capitalisation of 80% of accrued interest in the nominal amount of the corresponding New Senior Debt Instrument issued by Good Bank; and (ii) the inclusion of 10% of accrued but unpaid interest in the Senior Cash Payment.

Holders of Existing Senior Debt Instruments that are not exchanged will not receive any instruments or payments, but will retain their Existing Senior Debt Instruments in Residual Bank (please see section 3.6 below).

If the Payment Date in respect of a Senior Cash Payment or Coupon Service Payment (if applicable) occurs after the Transaction Effective Date, then the relevant amount (excluding, for the avoidance of doubt, any portion deducted and retained in respect of Senior Advisory Fees) shall accrue interest at JIBAR (or in the case of USD denominated EMTNs at LIBOR, or in the case of CHF denominated EMTNs at 0%) with effect from (and including) the Transaction Effective Date up to (but excluding) the Payment Date.

On implementation of the Senior Exchange Offer in respect of Exchanged Debt Instruments, such Exchanged Debt Instruments will be deemed to have been finally settled and discharged by African Bank and they will be cancelled without any further claim thereunder.

3.3.3.2 <u>Waiver and Release</u>

A Senior Funder (or Other Senior Creditor, as the case may be) who makes or accepts a Senior Exchange Offer, or who votes in favour of an Extraordinary Resolution will be deemed to have -

- released, to the fullest extent permitted by law, each Relevant Person from all and any claims and/or liabilities of whatsoever nature in relation to or in connection with the African Bank Restructuring (or any part thereof, including the Senior Exchange Offers) and/or its Existing Senior Debt Instruments (or Other Senior Claims, as the case may be), including its decision to invest in or acquire its Existing Senior Debt Instruments or Other Senior Claims, as the case may be, howsoever such claim or liability might arise and including but not limited to actions, omissions, misstatements and errors prior to, during or after Curatorship, including those that may have affected the value of the Existing Senior Debt Instruments or Other Senior Claims, as the case may be;

- waived, to the fullest extent permitted by law, all rights and entitlement it may otherwise have or acquire to bring, participate in or enforce legal proceedings of any nature against the Relevant Persons or any of them in relation to or in connection with the African Bank Restructuring (or any part thereof, including the Senior Exchange Offers) and/or its Existing Senior Debt Instruments or Other Senior Claims, as the case may be, including its decision to invest in or acquire its Existing Senior Debt Instruments or Other Senior Claims, as the case may be, howsoever such right or entitlement might arise and including actions, omissions, misstatements and errors prior to, during or after Curatorship, including those that may have affected the value of the Existing Senior Debt Instruments (or Other Senior Claims, as the case may be);

- if its Existing Senior Debt Instruments or Other Senior Claims, as the case may be, are exchanged in the Senior Exchange Offers, waived any and all events of default (howsoever described or arising) in respect of the relevant Existing Senior Debt Instruments; and

- if its Existing Senior Debt Instruments or Other Senior Claims, as the case may be, are exchanged in the Senior Exchange Offers, waived, to the fullest extent permitted by law, all its rights, title and interest to and claims in respect of such Existing Senior Debt Instruments or Other Senior Claims, as the case may be.

Please refer to the Applicable Offer Documents for the detailed terms of the waiver and release.

3.3.4 *Senior Advisory Services and Fees*

The Senior Funder Representatives have appointed White & Case to render legal advice in respect of the African Bank Restructuring and its impact on Senior Funders in particular. White & Case has reviewed the Information Memorandum as well as the Applicable Offer Documents affecting the Existing Senior Debt Instruments and have provided input thereon to the Curator.

3.3.4.1 <u>Contact Details</u>

White & Case can be contacted at:

Telephone Number: +2711 341 4017

Email address: jcoetzer@whitecase.com

Attention: Joz Coetzer

3.3.4.2 <u>Settlement of Senior Advisory Fees</u>

The Senior Advisory Fees will be borne and paid in the Participation Percentages by all Senior Funders whose Existing Senior Debt Instruments are exchanged in terms of the Senior Exchange Offer (including, for the avoidance of doubt, Senior Funders whose Existing Senior Debt Instruments are exchanged by Extraordinary Resolution). The Senior Advisory Fees shall not exceed ZAR16.5 million plus VAT and applicable disbursements.

Senior Advisory Fees will be settled and discharged in terms of the Senior Exchange Offer in the following manner:

- **Serviced Instruments**: the Participation Percentage of the Senior Advisory Fees attributable to each Serviced Instrument exchanged will be deducted as part of the Coupon Service Payment calculation (see Annexure C as well as the definition of Coupon Service Payment in section 1 above). African Bank will pay the aggregate amount deducted as part of the calculation of the Coupon Service Payment to White & Case shortly after the Final Settlement Date;

- **Rolled-Up Instruments**: the Participation Percentage of the Senior Advisory Fees attributable to each Rolled-Up Instrument exchanged in terms of the Senior Exchange Offer will be deducted from the Senior Cash Payment due in respect of each Rolled-Up Instrument. African Bank will pay the aggregate amount deducted from the Senior Cash Payment to White & Case shortly after the Final Settlement Date.

Existing Senior Debt Instruments that are not exchanged in terms of the Senior Exchange Offer will not bear any portion of the Senior Advisory Fees. Holders of Other Senior Claims will also not bear any portion of the Senior Advisory Fees, whether they exchange their claims or not.

3.3.5 *Terms of New Senior Debt Instruments in Good Bank*

<u>**Please refer to the contents of the Applicable Offer Documents for a comprehensive recordal of the general and specific terms that will attach to your New Senior Debt Instruments if you participate in the Senior Exchange Offer. The remaining content of this section 3.3.5 is intended only as an explanatory guide to the principles applicable to the African Bank Restructuring.**</u>

3.3.5.1 <u>New Senior Debt Instruments delivered in exchange for Existing Senior Debt Instruments (other than Index-Linked Instruments)</u>

The principal economic terms (including interest rate and interest period duration) of the New Senior Debt Instruments issued by Good Bank will correspond with the economic terms of the Existing Senior Debt Instruments in African Bank, save that:

- in determining the nominal amount of a particular New Senior Debt Instrument, a 20% reduction shall be applied to the corresponding Existing Senior Debt Instrument as at the Transaction Effective Date;

- the final repayment date of each New Senior Debt Instrument shall be the original contractual maturity date of the relevant exchanged Existing Senior Debt Instrument (i.e. in the ordinary course without acceleration), extended by the sum of (i) the number of days in the Interim Period; and (ii) 24 months (please refer to Annexure C for illustrative examples of the application of this extension to various instruments); and

- the interest payment dates of a New Senior Debt Instrument will be aligned to the maturity date to ensure that the last interest period of the relevant New Senior Debt Instrument is a full unbroken period. The duration of the interest periods will however remain the same as those that applied to the corresponding Exchanged Debt Instrument.

The nominal amount of a New Senior Debt Instrument shall be:

- in respect of a New Senior Debt Instrument being delivered in exchange for a Serviced Instrument which is not a Capitalised Call Deposit: 80% of the capital or nominal amount of the Serviced Instrument as at the Transaction Effective Date (i.e. exclusive of any capitalised, penalty and other forms of interest);

- in respect of a New Senior Debt Instrument being delivered in exchange for a Serviced Instrument which is a Capitalised Call Deposit: 80% of the Face Value of the Serviced Instrument on (and including) the Last IPD. This effectively results in 80% of interest accrued and capitalised on a Capitalised Call Deposit up until (and including) the Last IPD being included in the nominal amount of the corresponding New Senior Debt Instrument; and

- in respect of a New Senior Debt Instrument issued in respect of a Rolled-Up Instrument: 80% of the total amount outstanding in respect of the Rolled-Up Instrument on the day immediately preceding the Transaction Effective Date (i.e. including 80% of accrued interest).

Each New Senior Debt Instrument will correspond to the nature and principal economic terms of an Existing Senior Debt Instrument. For example, a Senior DMTN will be exchanged for a new senior DMTN issued in terms of the new Good Bank DMTN programme. The senior DMTN in Good Bank will have the same interest rate and interest period duration as the corresponding DMTN in African Bank, but:

- the nominal value of the Good Bank DMTN will be 80% of the nominal value of the African Bank DMTN (i.e. exclusive of any form of capitalised or un-capitalised interest) as at the Transaction Effective Date; and

- the maturity date of the Good Bank DMTN will be the ordinary course maturity date that applied to the corresponding African Bank DMTN (without acceleration), extended by the sum of: (i) the number of days in the Interim Period; and (ii) 24 months. The interest payment dates of the new Good Bank DMTN will be aligned to the new extended maturity date of the instrument.

As another example, a PN which is a Rolled-Up Instrument will be exchanged for a corresponding coupon accumulating PN in Good Bank on the relevant Settlement Date. The same principles as set out above will apply to the new PN in Good Bank except that the nominal value will be 80% of the Face Value immediately before the Transaction Effective Date. Accordingly, 80% of the interest accrued on the existing African Bank PN in the ordinary course (excluding penalty or default interest) will be included in the nominal value of the new Good Bank PN because no Coupon Service Payment will be made in respect of Rolled-Up Instruments.

In the case of Facility Debt however, the nature of the instrument shall change from a contractual term loan to a corporate deposit. In the case of Capitalised Call Deposits, the nature of the instruments shall change to fixed term deposits in respect of which all capital will be repayable on the First Maturity Date and all accrued interest will be paid monthly with effect from the Transaction Effective Date.

Worked examples illustrating the calculation of the nominal value of New Senior Debt Instruments (Rolled-Up Instruments and Serviced Instruments respectively) are attached hereto as Annexure C. The same transaction principles are applied uniformly to all Existing Senior Debt Instruments, save that 90% of the coupon accrued in respect of Serviced Instruments since the Last IPD (less the Participation Percentage of Senior Advisory Fees) will be settled by African Bank in cash on the Payment Date in the form of the Coupon Service Payment (as opposed to Rolled-Up Instruments where 80% of interest accrued in the ordinary course will be included in the nominal amount of the corresponding New Senior Debt Instrument and 10% of interest accrued in the ordinary course will be included in the Senior Cash Payment).

The non-economic terms of each category of New Senior Debt Instruments will be regulated by a new set of common terms prescribed by Good Bank and applicable to each category of New Senior Debt Instrument (e.g. there will be a new DMTN programme and a new EMTN programme in Good Bank and there will be a consolidated set of general terms for each category of Bilateral Corporate Deposit - see the relevant Exchange Offer Document for more detail).

3.3.5.2 New Senior Debt Instruments delivered in exchange for Existing Senior Debt Instruments that are Index-Linked Instruments

The general principles in section 3.3.5.1 above will be applied, in the case of Index-Linked Instruments, as follows:

- the relevant New Senior Debt Instrument will also be an Index-Linked Instrument;

- the Base CPI of the New Senior Debt Instrument will be the same as the Base CPI that applied to the relevant Existing Senior Debt Instrument, as adjusted to accommodate the rebasing of the indexes to 100 as at December 2012 (as set out in the information note published by Statistics South Africa on 21 January 2013). By using the historic Base CPI as the reference point for the New Senior Debt Instruments, the relevant holder will effectively retain exposure to 80% of the change in inflation since the original issue date of the Existing Senior Debt Instrument. In other words, when interest and final redemption amounts are calculated for the New Senior Debt Instrument, the new 80% nominal amount will be divided by the historic Base CPI and then Adjusted For CPI for the relevant period;

- the nominal amount of the New Senior Debt Instrument will be 80% of the "Nominal Amount" as defined in the Existing Senior Debt Instrument, being the agreed reference amount used to calculate:

    - the final redemption amount of the Index-Linked Instrument (the nominal amount, divided by the historic Base CPI and then Adjusted For CPI for the relevant period, equals the maturity value of the instrument); and

    - regular interest payments (i.e. interest is calculated for each period with reference to the nominal amount divided by the historic Base CPI and then Adjusted For CPI for the relevant period);

- the maturity date will be the original contractually agreed maturity date of the Existing Senior Debt Instrument (in the ordinary course without acceleration), extended by the sum of: (i) the number of days in the Interim Period; and (ii) 24 months;

- interest payment dates will be aligned to the maturity date of the New Senior Debt Instrument (but the duration of the interest period will not be affected); and

- all other economic terms (such as interest rate, and calculation methodologies) will remain the same as those that applied to the Existing Senior Debt Instrument.

Annexure C contains illustrative examples of the New Senior Debt Instruments that will be issued in relation to existing Index-Linked Instruments that are exchanged in terms of the Senior Exchange Offer.

3.3.5.3 New Senior Debt Instruments delivered in exchange for Other Senior Claims (if any)

If any Other Senior Claim arises before the date on which the Curator submits his final report to the Minister (which is currently expected to occur on or around 2 March 2016), then the Curator will make a Senior Exchange Offer to the Other Senior Creditor on the same basis *mutatis mutandis* as the Senior Exchange Offer made to the Senior Funders (i.e. the Other Senior Creditor will receive a New Senior Debt Instrument, a Senior Stub Instrument and a Senior Cash Payment).

In making a Senior Exchange Offer to a particular Other Senior Creditor, the Curator will assess the quantum, due date, suitable interest rate (if any) and other relevant terms of the Other Senior Claim and will endeavour to reach agreement with the relevant Other Senior Creditor in this regard. If agreement or settlement cannot be reached, then the Curator, acting reasonably and in good faith, will determine the quantum, due date, interest rate and other relevant terms of the Other Senior Claim and the relevant Senior Exchange Offer will be based on the Curator's assessment of these terms.

The quantum of an Other Senior Claim (as agreed or determined by the Curator) is referred to in this document as the "**Principal Amount**" of such Other Senior Claim. An Other Senior Claim will be exchanged for a New Senior Debt Instrument that:

- constitutes a fixed term deposit with a capital or principal amount equal to 80% of the Principal Amount of the Other Senior Claim;

- accrues interest with effect from the Transaction Effective Date at the inherent contractual interest rate applicable to the Other Senior Claim (if any), unless otherwise determined by the Curator acting reasonably and in good faith;

- will be serviced in such manner and on such dates as agreed with the relevant Other Senior Creditor before the Senior Exchange Offer is made, or otherwise in a manner determined by the Curator acting reasonably and in good faith; and

- will have a final repayment date determined by extending the original contractual maturity date of the Other Senior Claim (as agreed with the Other Senior Creditor or determined by the Curator acting reasonably and in good faith) by the sum total of: (i) the number of days in the Interim Period; and (ii) 24 months.

In addition to the New Senior Debt Instrument, the Other Senior Creditor will also receive a Senior Stub Instrument and a Senior Cash Payment.

3.3.5.4 <u>Exceptions where no New Senior Debt Instruments will be issued, and/or where New Senior Debt Instruments with a nominal amount of less than 80% of the capital of the Existing Senior Debt Instrument will be issued</u>

Since the Curatorship Date the Curator has, in a few limited instances, exercised his powers in terms of section 69 of the Banks Act to repay all or a portion of the Bilateral Corporate Deposits held by certain Senior Funders ("**Reduced Instruments**"). In each of these instances, the Curator deemed the relevant payment commercially justifiable and reasonable in the circumstances.

One such an example was the return of approximately ZAR180 million to Stangen in respect of its Bilateral Corporate Deposit of approximately ZAR572 million with African Bank. The payment was required to reduce the risk of Stangen not meeting its regulatory asset spread requirements at a time when it was still envisaged that Stangen would form part of the New HoldCo Group. Approximately ZAR40 million of the amount repaid has since been re-deposited by Stangen with the Bank. The Curator at the time held the view that the continued financial viability of Stangen was in the best interest of the African Bank Restructuring, the Good Bank Business and therefore creditors in general, especially in light of the role envisaged for Stangen in the New HoldCo Group at that time (please refer to the Information Memorandum which explains the role previously envisaged for Stangen in the New HoldCo Group).

Senior Exchange Offers will be made to the holders of Reduced Instruments based on the same principles as set out above in section 3.3.5.1. The amount outstanding in respect of Reduced Instruments as at the Curatorship Date will be reduced by 10% and the Senior Cash Payment and Coupon Service Payment will be calculated accordingly. Thereafter, any amount already repaid in respect of the Reduced Instrument:

- shall firstly reduce or discharge any Coupon Service Payment that would otherwise have been due (such Coupon Service Payment being calculated based on the actual balance of the claim outstanding on a daily basis during Curatorship, taking the 10% reduction and the early repayment into account);
- thereafter the Senior Cash Payment shall be reduced or discharged; and
- to the extent that the amount already repaid exceeds both the Coupon Service Payment and the Senior Cash Payment that would otherwise be due, the remaining excess shall firstly reduce the nominal value of the New Senior Debt Instrument to be issued by Good Bank and thereafter the nominal value of the Senior Stub Instrument.

3.3.6 *Terms of Senior Stub Instruments in Residual Bank*

<u>**Please refer to the contents of the Applicable Offer Documents for a comprehensive recordal of the general and specific terms that will attach to your New Senior Stub Instruments if you participate in a Senior Exchange Offer. The remaining content of this section 3.3.6 is intended only as an explanatory guide to the principles applicable to the African Bank Restructuring.**</u>

A Senior Stub Instrument shall:

- have a nominal value equal to 10% of the Face Value of the relevant Existing Senior Debt Instrument (or Principal Amount of the Other Senior Claim, if applicable) on the day immediately preceding the Curatorship

Date. In the case of Other Senior Claims, the Principal Amount shall be the amount as agreed with the Curator, or determined by the Curator acting reasonably and in good faith (see section 3.3.5.3 above). In the case of Index-Linked Instruments, the nominal value of the Senior Stub Instrument will be 10% of the Face Value of the corresponding Index-Linked Instrument on the day immediately preceding the Curatorship Date, Adjusted For CPI;

- constitute an unsecured, unlisted claim against African Bank;
- constitute an obligation to pay a ZAR amount (i.e. African Bank will not assume any foreign currency risk in respect of any Senior Stub Instruments). Foreign currency amounts will be converted to ZAR at the spot rate applicable on the last business day preceding the Curatorship Date;
- accrue interest at a rate of JIBAR plus 300 basis points (capitalised quarterly) with effect from the Curatorship Date;
- be effectively subordinated in favour of SARB and shall only be repayable *pari passu* with the other unsecured unsubordinated creditors of African Bank, in accordance with the Distribution Waterfall (i.e. after: (i) all post-Transaction Effective Date run-off expenses and operational costs have been paid or provided for in full (including any potential adjustment to the Top-Up Cash Amount that may become due in terms of the Sale of Business Agreement (refer to section 3.2.3 above)): (ii) all amounts owing to SARB in terms of the SARB Transaction Loan, SARB Indemnity Facility and/or SARB Guarantee (if any) have been repaid; and (iii) the Indemnity Reserve has been established or released, or the Good Bank Indemnity has been cancelled or released); and
- have no fixed maturity, capital repayment or interest payment profile (refer to the Residual Run-Off Analysis in section 5.4 for a discussion on the anticipated collection profile of the Residual Book).

Please refer to section 5.4 below in respect of the prospects for recoverability of the Senior Stub Instruments.

3.4 Subordinated Exchange Offers

3.4.1 *Summary of Subordinated Exchange Offer*

Before the Transaction Effective Date, African Bank will invite all the Subordinated Funders to participate in the Subordinated Exchange Offer.

In terms of the Subordinated Exchange Offer, up to ZAR1.485 billion of the Existing Subordinated Debt Instruments will be exchanged for: (i) Basel III compliant Tier 2 Capital debt instruments in Good Bank (being the New Subordinated Debt Instruments); and/or (ii) New HoldCo Shares. In addition to the delivery of New Subordinated Debt Instruments and/or New HoldCo Shares, Subordinated Funders who participate in the Subordinated Exchange Offer will also receive a Subordinated Cash Payment. Up to ZAR165 million of the Existing Subordinated Debt Instruments will be exchanged for the Subordinated Cash Payment.

The portion of each Existing Subordinated Debt Instrument that qualifies to be exchanged for New Subordinated Debt Instruments and/or New HoldCo Shares is referred to as the Transferable Portion of that Existing Subordinated Debt

Instrument. The terms of the New Subordinated Debt Instruments, including maturities, interest payment dates and interest rates, will differ materially from the current terms applicable to the various Existing Subordinated Debt Instruments.

Subordinated Funders will elect, as part of the offer process, whether their Transferable Portion should be settled through the delivery of New Subordinated Debt Instruments, New HoldCo Shares (at a price of ZAR20 per share) or any combination of the two (provided that a Subordinated Funder shall not be permitted to elect equity settlement in respect of less than ZAR10 million of its Transferable Portion). Holders of Subordinated DMTNs who do not actively support the Subordinated Exchange Offer but whose Existing Subordinated Debt Instruments are nevertheless exchanged by Extraordinary Resolution will be deemed to have elected to have their Transferable Portion settled in New Subordinated Debt Instruments only.

On or about the Transaction Effective Date, African Bank will subscribe for the number of New HoldCo Shares that it requires to settle the Subordinated Exchange Offers with those Subordinated Funders who elected that all or any part of their Transferable Portion be settled in equity. At the same time, New HoldCo will subscribe for a corresponding amount of equity in Good Bank at a subscription price equal to the Equity Settled Amount. On or before the relevant Settlement Date, African Bank will cede its right to delivery of the New HoldCo Shares to the relevant Subordinated Funders who have elected equity settlement, and New HoldCo will issue and deliver the New HoldCo Shares directly to the relevant Subordinated Funders. African Bank will pay the Equity Settled Amount to New HoldCo on or by the Transaction Effective Date in settlement of the subscription consideration due in respect of the New HoldCo Shares. New HoldCo will then pay the Equity Settled Amount to Good Bank in settlement of its back-to-back obligation to subscribe for further shares in Good Bank.

The Remaining Portion of the Existing Subordinated Debt Instruments will be exchanged for a Subordinated Stub Instrument in Residual Bank. Based on the current information available to the Curator and the projected financial information included in section 5.4, there is no reasonable prospect of any amount being distributed in respect of Subordinated Stub Instruments.

3.4.2 *Process*

In the case of Subordinated DMTNs, African Bank will seek the support of Subordinated Funders for the Subordinated Exchange Offers through a one-on-one exchange offer process coupled with subordinated noteholder meetings. If the required majorities (66.67% of the votes exercised at the relevant meeting) in any series of Subordinated DMTNs:

- vote in favour of the Subordinated Exchange Offer, then all the notes in the relevant series will be exchanged in accordance with the terms of the Subordinated Exchange Offer; or
- do not vote in favour of the Subordinated Exchange Offer, but the African Bank Restructuring and the Subordinated Exchange Offer become unconditional, then only those Existing Subordinated Debt Instruments in that series in respect of which the Subordinated Exchange Offer was accepted will be exchanged and discharged in the manner set out in section 3.4.4.

Subordinated Exchange Offers in respect of Subordinated Bilateral Corporate Deposits and amounts owed to the Development Finance Institutions will be solicited on a one-on-one basis from the relevant Subordinated Funders, and will require each Subordinated Funder's support.

The New Subordinated Debt Instruments and Subordinated Stub Instruments shall only be offered in jurisdictions in or from which, or to any person to whom, it is lawful to make such offer or invitation under applicable laws. Further detail in this regard is included in the Applicable Offer Documents.

It is intended that African Bank will cease to be a licensed bank after completion of the transfer of the Good Bank Business to Good Bank, and as such it will not be bound by the Regulations Relating to Banks and will be permitted to repay the Existing Subordinated Debt Instruments in the manner contemplated by the Subordinated Exchange Offer.

3.4.3 *Subordinated Exchange Offer conditions*

The Subordinated Exchange Offer, but not the African Bank Restructuring as a whole, will only proceed if more than 75% in value of all Existing Subordinated Debt Instruments will be exchanged in terms of the Subordinated Exchange Offer. For the avoidance of doubt, Subordinated Funders who do not accept the Subordinated Exchange Offer but whose Existing Subordinated Debt Instruments are nevertheless exchanged in terms of an Extraordinary Resolution will be included in calculating this threshold.

The Subordinated Exchange Offers are also subject to the Suspensive Conditions (see section 3.7 below). If the Suspensive Conditions in section 3.7 are fulfilled but the 75% participation threshold is not achieved, then the African Bank Restructuring will proceed without implementation of the Subordinated Exchange Offer.

3.4.4 *Effect of acceptance of Subordinated Exchange Offer*

3.4.4.1 Full Settlement and Discharge of Existing Subordinated Debt Instruments

A Subordinated Funder whose Existing Subordinated Debt Instruments are exchanged in terms of the Subordinated Exchange Offer will receive:

- in exchange for the **Transferable Portion** of the Existing Subordinated Debt Instruments, New Subordinated Debt Instruments and/or New HoldCo Shares in such proportions as the Subordinated Funder may elect (provided that no Subordinated Funder shall be entitled to elect equity settlement in respect of less than ZAR10 million of its Transferable Portion);

- in exchange for the **Remaining Portion** of the Existing Subordinated Debt Instruments, a Subordinated Stub Instrument with an equivalent nominal value.

In addition, a Subordinated Cash Payment will be made to the relevant Exchanged Funders. If the Payment Date in respect of the Subordinated Cash Payment occurs after the Transaction Effective Date, then the Subordinated Cash Payment (excluding any portion deducted and retained in respect of Subordinated Advisory Fees) shall accrue interest at JIBAR with effect from (and including) the Transaction Effective Date up to (but excluding) the Payment Date.

On implementation of the Subordinated Exchange Offer in respect of Exchanged Debt Instruments, such Exchanged Debt Instruments will be deemed to have been finally settled and discharged by African Bank and they will be cancelled without any further claim thereunder.

3.4.4.2 Waiver and Release

A Subordinated Funder who makes or accepts a Subordinated Exchange Offer, or who votes in favour of an Extraordinary Resolution, will be deemed to have -

- released, to the fullest extent permitted by law, each Relevant Person from all and any claims and/or liabilities of whatsoever nature in relation to or in connection with the African Bank Restructuring (or any part thereof, including the Subordinated Exchange Offers) and/or its Existing Subordinated Debt Instruments, including its decision to invest in or acquire its Existing Subordinated Debt Instruments, as the case may be, howsoever such claim or liability might arise and including but not limited to actions, omissions, misstatements and errors prior to, during or after Curatorship, including those that may have affected the value of the Existing Subordinated Debt Instruments;

- waived, to the fullest extent permitted by law, all rights and entitlement it may otherwise have or acquire to bring, participate in or enforce legal proceedings of any nature against the Relevant Persons or any of them in relation to or in connection with the African Bank Restructuring (or any part thereof, including the Subordinated Exchange Offers) and/or its Existing Subordinated Debt Instruments, including its decision to invest in or acquire its Existing Subordinated Debt Instruments, as the case may be, howsoever such right or entitlement might arise and including actions, omissions, misstatements and errors prior to, during or after Curatorship, including those that may have affected the value of the Existing Subordinated Debt Instruments;

- if its Existing Subordinated Debt Instruments are exchanged in the Subordinated Exchange Offers, waived any and all events of default (howsoever described or arising) in respect of the relevant Existing Subordinated Debt Instruments; and

- if its Existing Subordinated Debt Instruments are exchanged in the Subordinated Exchange Offers, waived, to the fullest extent permitted by law, all its rights, title and interest to and claims in respect of such Existing Subordinated Debt Instruments.

Please refer to the Applicable Offer Documents for the detailed terms of the waiver and release.

3.4.5 *Subordinated Advisory Fees*

The Subordinated Funder Representatives have appointed Allen & Overy, Baker & McKenzie and Lazard to render advice in respect of the African Bank Restructuring and its impact on Subordinated Funders in particular. The tier 2 group, representing holders of Subordinated DMTNs and Subordinated Bilateral Corporate Deposits, are advised by Allen & Overy and Lazard and the Development Finance Institutions are advised by Baker and McKenzie.

3.4.5.1 Contact Details

Allen & Overy can be contacted at:

Telephone Number: +2710 005 2040

Email address: Lionel.Shawe@AllenOvery.com

Attention: Lionel Shawe

Baker & McKenzie can be contacted at:

Telephone Number: +2711 911 4301

Email address: Wildu.duPlessis@bakermckenzie.com

Attention: Wildu du Plessis

Lazard can be contacted at:

Telephone Number: +4420 7187 2000

Email address: alan.patterson@lazard.com / Richard.stables@lazard.com

Attention: Alan Patterson / Richard Stables

3.4.5.2 Settlement of Subordinated Advisory Fees

It is a term of the Subordinated Exchange Offer that the Subordinated Advisory Fees will be borne and paid by the participating Subordinated Funders in their Participation Percentages. The Subordinated Advisory Fees (including VAT and disbursements) shall not exceed ZAR73 million (which includes a USD denominated payment of USD2.56 million capped at a maximum ZAR/USD exchange rate of ZAR20 : 1USD). For purposes of calculating the ZAR value of the USD denominated component of the Subordinated Advisory Fees, the exchange rate as at the 10th Business Day preceding the Transaction Effective Date shall be used.

African Bank will deduct the Subordinated Advisory Fees from the Subordinated Cash Payments and will pay the relevant fees to the respective advisors.

Existing Subordinated Debt Instruments that are not exchanged in terms of the Subordinated Exchange Offer will not bear any portion of the Subordinated Advisory Fees.

3.4.6 *Terms of New Subordinated Debt Instruments in Good Bank*

Please refer to the contents of the Applicable Offer Documents for a comprehensive recordal of the general and specific terms that will attach to your New Subordinated Debt Instruments if you participate in the Subordinated Exchange Offer. The remaining content of this section 3.4.6 is intended only as an explanatory guide to the principles applicable to the African Bank Restructuring.

The New Subordinated Debt Instruments will take the form of a single series, listed on the JSE, issued on the terms and conditions of the Good Bank DMTN programme. The terms of the New Subordinated Debt Instruments will differ materially from the terms of the various Existing Subordinated Debt Instruments.

The New Subordinated Debt Instruments will:

- have a maturity of 10 years from the Transaction Effective Date, and shall not be callable for the first 5 years and one day (i.e. Good Bank could seek redemption after 5 years and one day after the date of issue thereof, subject to compliance with the Regulations Relating to Banks and the consent of the Registrar of Banks);

- constitute ZAR payment obligations;

- be compliant with the necessary rules and regulations to be a Tier 2 Capital instrument in line with Basel III requirements as set out in the Banks Act, the Regulations Relating to Banks and applicable directives and guidance notes;

- be compulsorily convertible into New HoldCo Shares at the discretion of the Registrar of Banks if the Registrar of Banks determines in accordance with the Capital Regulations that Good Bank would otherwise become non-viable, as contemplated in regulation 38(14)(a)(i) of the Regulations Relating to Banks; and

- be floating rate instruments with a coupon of JIBAR plus 725 basis points. Interest on the New Subordinated Debt Instruments will accrue from 1 December 2015. All interest accrued as at the Transaction Effective Date, will be settled by Good Bank on the Transaction Effective Date. If payment of such accrued interest is not made or procured to the relevant clearing systems or Exchanged Funder, as the case may be, on the Transaction Effective Date, interest at JIBAR shall accrue with effect from (and including) the Transaction Date up until (but excluding) the date on which payment is made to the relevant clearing system or Exchanged Funder (as the case may be), and shall be payable by Residual Bank.

3.4.7 *New HoldCo Shares*

Subordinated Funders who elect to acquire New HoldCo Shares will be minority shareholders in an unlisted company with no operations of its own and that will depend on dividends from its subsidiaries, Good Bank and InsureCo, for its profitability. There will not be any formal mechanism for trading in New HoldCo Shares and New HoldCo is not expected to declare any dividends in the short-term.

3.4.8 *Terms of Subordinated Stub Instruments in Residual Bank*

Please refer to the contents of the Applicable Offer Documents for a comprehensive recordal of the general and specific terms that will attach to your Subordinated Stub Instruments if you participate in the Subordinated Exchange Offer. The remaining content of this section 3.4.8 is intended only as an explanatory guide to the principles applicable to the African Bank Restructuring.

The nominal value of each Subordinated Stub Instrument shall be equal to the Remaining Portion.

A Subordinated Stub Instrument shall:

- constitute an unsecured, unlisted claim against Residual Bank;
- be ZAR denominated;
- accrue interest at a rate of JIBAR plus 500 basis points, from the date of the issue of the Subordinated Stub Instrument. Interest unpaid at a quarterly date will be capitalised;
- have no fixed interest or capital repayment date; and
- be subordinated in favour of all unsubordinated creditors of African Bank, and will qualify for a distribution in accordance with the Distribution Waterfall (please refer to the Residual Run-Off Analysis in section 5.4).

It is intended that the Subordinated Stub Instruments will be held through STRATE and will be transferable through the STRATE system, although they will not be listed.

Based on the current information available to the Curator and the financial information included in section 5.4, there is no reasonable prospect of any amount being distributed to the holders of Subordinated Stub Instruments. The Subordinated Stub Instruments however provide a mechanism that will allow Subordinated Funders to participate in any material outperformance of the Residual Book.

3.5 SARB funding and support

Over and above its ZAR5 billion participation in the ZAR10 billion capitalisation of Good Bank, SARB will lend and advance to African Bank, in terms of the SARB Transaction Loan, the aggregate amount of cash required by the Bank (after depletion of its own cash resources):

- to pay the Top-Up Cash Amount to Good Bank (including any additional amount that may become due after the Transaction Effective Date in terms of the true-up process to be performed in terms of the Sale of Business Agreement);
- to make the Coupon Service Payment, the Senior Cash Payment and the Subordinated Cash Payment;
- to establish the Operating Float;

- to pay the Equity Settled Amount for New HoldCo Shares to be delivered to Subordinated Funders (if any); and
- to discharge any of the other Transaction Effective Date expenses reasonably and validly incurred by the Curator (see section 5.1.3.3 below).

As at the date of this Offer Information Memorandum it is forecast that an amount of ZAR3.3 billion will be drawn against the SARB Transaction Loan. The remainder of the expenses listed above will be settled from African Bank's own accumulated cash resources.

SARB will financially support the issue of the Good Bank Indemnity by making the SARB Indemnity Facility available to Residual Bank (which will be the primary indemnifying party) and by directly guaranteeing the indemnity obligations in circumstances where Residual Bank fails to perform. The combined maximum exposure of SARB in terms of the SARB Indemnity Facility (as lender) and the Good Bank Indemnity (as secondary guarantor) is ZAR3 billion.

The loan amounts drawn by African Bank under the SARB Transaction Loan and the SARB Indemnity Facility will be subject to the following salient terms:

- outstandings from time to time shall accrue interest at a rate of: (i) 225 basis points for the SARB Transaction Loan and (ii) 300 basis points for the SARB Indemnity Facility, in each case above JIBAR. Amounts available but undrawn in terms of the SARB Indemnity Facility, less the cash balance in the Indemnity Reserve, will be subject to a commitment fee of 50 basis points per annum;
- the Residual Book, any New Senior Debt Instruments not transferred to Senior Funders in terms of the Senior Exchange Offer, all bank accounts, specified insurances, claims and any other remaining assets of African Bank will be ceded as security for the repayment of outstandings to SARB; and
- outstandings shall be repaid in priority to all other Residual Bank creditors other than its day-to-day operational creditors, as set out in the Distribution Waterfall. The tenor of the SARB Transaction Loan is 3 years and the tenor of the SARB Indemnity Facility is 8 years.

3.6 Residual Bank: after the Transaction Effective Date

Residual Bank has appointed Good Bank to collect the Residual Book after the Transaction Effective Date in return for a market related service fee (see section 5.2.2 below). It is intended (but not yet agreed with the Registrar of Banks) that Residual Bank will remain under Curatorship after the Transaction Effective Date and will continue to be managed by a Curator, subject to the supervision of the Registrar of Banks.

After the Final Settlement Date, all amounts retained and/or collected in respect of the Residual Book and/or otherwise accruing to African Bank will be applied in accordance with the following Distribution Waterfall:

- firstly, Residual Bank will discharge run-off expenses and its day-to-day operational costs (including without limitation (i) the fees due to Good Bank in respect of the collection of the Residual Book; (ii) any top-up payment obligation in respect of the Top-Up Cash Amount (see section 3.2.3 above); and (iii) Curator's fees) as and when they become due. To adequately provide for future anticipated run-off expenses and operational costs, Residual Bank will build up, maintain and replenish an Operating Float. The Operating Float will be topped-up out of collections under the Residual Book over time. The Residual Run-Off Analysis and projected list of opening assets and liabilities of Residual Bank as at the Transaction Effective Date (see sections 5.1 and 5.4 below) assumes an initial Operating Float of ZAR500 million, but Residual Bank shall be entitled to increase or reduce this amount from time to time in such manner as it may deem necessary to ensure that run-off expenses and operational costs of Residual Bank are provided for at all times;

- secondly, all amounts collected over and above the Operating Float shall be applied exclusively to repay all fees, interest, capital and other amounts owing to the SARB from time to time in terms of or arising from the SARB Indemnity Facility, the SARB Transaction Loan and/or guarantee payments made by SARB in terms of the Good Bank Indemnity ("**SARB Outstandings**");

- thirdly, all cash collected over and above the Operating Float and the SARB Outstandings shall be retained and invested in one or more ring-fenced accounts pledged in favour of SARB, until a reserve equal to the Indemnity Reserve has been established to provide for any potential indemnification claims under the Good Bank Indemnity; and

- fourthly, and only to the extent that: (i) all run-off expenses and day-to-day operational costs have been paid and the Operating Float is maintained at the level required by Residual Bank from time to time; (ii) all SARB Outstandings have been repaid in full; and (iii) the Indemnity Reserve has been established (or SARB no longer requires it, or the Good Bank Indemnity has been terminated) any remaining cash of Residual Bank shall be applied, in such manner and amounts, and at such time as Residual Bank may determine:

  - firstly to repay (on a *pari passu* basis) all unsecured and unsubordinated debt raised by or other claims against Residual Bank from time to time (including holders of Existing Senior Debt Instruments in respect of which the Senior Exchange Offer was not accepted or implemented, holders of Senior Stub Instruments and holders of any other unsecured and unsubordinated claims against Residual Bank); and

  - secondly, and only to the extent that all unsubordinated creditors have been repaid in full, to repay on a *pari passu* basis the Existing Subordinated Debt Instruments in respect of which the Subordinated Exchange Offer was not accepted or implemented, the Subordinated Stub Instruments and any other subordinated claims against Residual Bank.

Residual Bank shall have an absolute discretion to determine the most appropriate time and manner to distribute any collections that may become available to creditors. From a practical and administrative perspective the intention is not to make multiple small trickle payments and any distributions to creditors (other than SARB) are likely to be reviewed annually (in any event, no distributions on Stub Instruments will be made before the Indemnity Reserve has been established). For so long as the Indemnity Reserve must be maintained, the relevant ring-fenced bank accounts and rights to the retained cash will remain pledged to SARB as security and no portion thereof will be available for distribution (see section 5.3.2).

Residual Bank will publish a six monthly update on its website about the progress of the realisation of assets from the Residual Bank, the status and amount of the SARB Indemnity Facility and the Indemnity Reserve, a summary of any pending or threatened material litigation against Residual Bank and an updated assessment of quantum and timing of any distributions to creditors.

3.7 Suspensive Conditions to the African Bank Restructuring

The implementation of the African Bank Restructuring is subject to the fulfilment of the Suspensive Conditions below by or before 29 March 2016, or such later date as the Curator and Good Bank may agree in writing (provided that such date shall not be extended beyond 30 June 2016).

If the Suspensive Conditions are not satisfied or waived, if applicable, on or before 30 June 2016 the Exchange Offers will not be implemented, and no Existing Debt Instruments will be exchanged.

A Suspensive Condition may only be waived if: (i) such waiver will not result in African Bank or Good Bank contravening any law if the African Bank Restructuring is implemented without fulfilment of such Suspensive Condition; and (ii) both African Bank and Good Bank have reached agreement to that effect in writing. Some of the Suspensive Conditions listed below have already been fulfilled as at the Offer Date.

3.7.1 *Regulatory Conditions*

- The consent by the Minister to:
  - the transfer of the Good Bank Business to Good Bank, as required in terms of sections 54 and 69(2C) of the Banks Act; and
  - the subscription by SARB for New HoldCo Shares, as required in terms of section 13(b) of the Reserve Bank Act 90 of 1989 (as amended).
- To the extent required by law, the approval by the South African competition authorities of the transfer of the Good Bank Business to Good Bank in terms of the Sale of Business Agreement either without conditions, or if conditions are imposed to such approval, that the conditions are reasonably acceptable to the party/ies affected by the conditions.
- The Registrar of Banks acting alone or acting together with the Minister (where required):
  - granting Good Bank's application for registration as a bank in terms of section 17 of the Banks Act;
  - granting New HoldCo's application for registration as a bank controlling company in respect of Good Bank in terms of section 44 of the Banks Act;
  - approving the issue of New Subordinated Debt Instruments by Good Bank in terms of section 79 of the Banks Act;
  - approving the acquisition of InsureCo as a wholly owned Subsidiary by New HoldCo in terms of section 80 of the Banks Act;
  - granting such other permissions, consents, registrations and/or approvals as may be required in terms of the Banks Act for the lawful implementation of the African Bank Restructuring; and

  - granting such other approvals, permissions, registrations and/or consents as may be required in terms of the Financial Services Regulatory Act and/or the Insurance Act, if either or both of the Financial Services Regulatory Bill or the Insurance Bill are promulgated into law by or before the Transaction Effective Date.

- The registration of Good Bank as a credit provider in terms of section 40 of the NCA.

- Approval by the Registrar of Long-Term Insurance in terms of section 26 of the Long-Term Insurance Act, 1998 for the indirect change of control of the Good Bank Cell as a result of the implementation of the subscription agreement pursuant to which the Consortium will capitalise New HoldCo with ZAR10 billion.

- The approval by the Financial Surveillance Department of SARB of the requests and arrangements as set out in African Bank exchange control application number 2927 dated 24 August 2015, including any further requests and arrangements tabled at a first meeting with the Financial Surveillance Department on 9 September 2015, and as subsequently supplemented by further applications submitted by African Bank after that date.

- Approval by the Payments Association of South Africa of Good Bank's membership to the association.

- Approval by the JSE of:

  - the notice of meetings in terms of the Senior Exchange Offers made to the holders of DMTNs in African Bank;

  - the registration of the Good Bank DMTN programme; and

  - the listing of the Good Bank DMTNs.

- Approval of the base prospectus for the Good Bank EMTN programme by the UK Listing Authority in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purposes of giving information with regard to Good Bank and the issue of Good Bank EMTNs.

- Approval of the Swiss listing prospectuses in relation to each of the Good Bank CHF denominated EMTNs to be issued under the Good Bank EMTN programme in compliance with the listing rules of the SIX and the applicable provisions of the Swiss Code of Obligations by the SIX.

3.7.2 *Sufficient Senior Funder Support*

That the holders of more than 50% of the Existing Senior Debt Instruments (in value) make Senior Exchange Offers that are accepted by African Bank.

For the avoidance of doubt, any Existing Senior Debt Instrument that is exchanged by Extraordinary Resolution shall be disregarded in calculating this threshold, unless the relevant Senior Funder made or accepted, or voted in favour of, the relevant Senior Exchange Offer and/or Extraordinary Resolution.

3.7.3 *Financial Viability of African Bank Restructuring*

That African Bank confirms in writing that, to the best of its knowledge and belief, the sum total of African Bank's own cash and the amount that can be drawn in terms of the SARB Transaction Loan is and will be sufficient to enable African Bank: (i) to discharge the Transaction Effective Date expenses (see section 3.5 above); (ii) to establish the Operating Float at the level reasonably required by African Bank as at that date; and (iii) to adjust or increase the Top-Up Cash Amount after the Transaction Effective Date based on the actual review and true-up process that will be performed by Good Bank after the Transaction Effective Date, as projected based on information and circumstances within the knowledge of African Bank as at the date of the confirmation, which confirmation shall not be issued by African Bank more than 3 Business Days before 29 March 2016 (or any later long-stop date agreed between African Bank and Good Bank in writing).

3.7.4 *No Material Adverse Event Notice*

That Good Bank has not, by or before 17:00 on 29 March 2016 (or any later long-stop date agreed between African Bank and Good Bank in writing), delivered a material adverse event notice to African Bank in terms of the Sale of Business Agreement.

3.7.5 *Exchange Offers: No material adverse change*

That, between the time of conclusion of the meetings convened for each series of existing notes in terms of the Exchange Offers (including, if any such meeting is adjourned, such adjourned meeting) and the time of announcement by African Bank as to whether or not any offers to exchange such existing notes are accepted, there shall not have been in African Bank's opinion any change in national or international monetary, financial, political or economic conditions or currency exchange rates or foreign exchange controls such as would in its view be likely to materially prejudice the implementation of the Exchange Offers.

3.7.6 *Insurance Arrangement*

That the Curator confirms in writing that he is reasonably satisfied that an arrangement is in place with a cell captive insurer, other registered long-term insurer or otherwise, that will (together with any run-off arrangement with Stangen) enable Good Bank to arrange or maintain adequate credit life insurance for its loan book (including the Good Book) after the Transaction Effective Date.

3.7.7 *Execution of New HoldCo capitalisation agreement*

That the subscription agreement for the ZAR10 billion capitalisation of New HoldCo is duly executed by the various parties thereto and becomes unconditional.

4. GOOD BANK

4.1 Introduction

The New HoldCo Group will consist of New HoldCo (*African Bank Holdings Limited*) and its two wholly owned Subsidiaries InsureCo (*African Insurance Group Limited*) and Good Bank (to be renamed *African Bank Limited* on or around the Transaction Effective Date).

All the entities in the New HoldCo Group are newly incorporated legal entities with no prior trading history.

The Base Case Forecasts demonstrate a reasonable possibility that the performance of Good Bank will improve after the Transaction Effective Date and that it will be well positioned to become a profitable business from FY17 onwards. The Base Case Forecasts do not include any potential upside that may arise from new strategies and product evolution that may be implemented after the Transaction Effective Date. The Base Case Forecasts also do not include the impact of any potential recapitalisation of Good Bank by New HoldCo from any profits derived by InsureCo from the Cell Captive Shares. The Base Case Forecasts do however include the anticipated impact of the New NCR Regulations with effect from 1 May 2016.

The main improvements designed to support and strengthen the Good Bank Business after the Transaction Effective Date can be summarised as follows:

- the Good Book that will be transferred to Good Bank has been selected based on more conservative credit risk-based criteria to achieve the best outcome for Good Bank. The Residual Book that contains the poorer quality assets will remain behind in Residual Bank;

- funding liabilities will be reduced substantially because the Exchange Offers will result in: (i) 80% of African Bank's senior funding liabilities; and (ii) no more than ZAR1.485 billion of subordinated debt (excluding accrued interest), being assumed by Good Bank (see sections 3.3 and 3.4 above for more detail in respect of the Exchange Offers);

- Good Bank will have a substantial opening cash balance comprising the Top-Up Cash Amount and the ZAR10 billion equity and this will result in high liquidity throughout the Base Case Period;

- Good Bank will be led by a new Chief Executive Officer, Chief Financial Officer, Chairman and board of directors, with extensive experience in the South African banking market and who will focus on taking the business forward and exploiting new strategies and opportunities;

- African Bank's historic credit policies and tools have been reviewed and improved to ensure that better quality, more profitable loans are originated in future (the revised policies have already been applied since the Curatorship Date in the origination of the New Loans forming part of the Good Book);

- a cost reduction programme has commenced to more appropriately right size the cost structure of Good Bank;

- provisioning methodologies have been reviewed and improved to reflect credit impairments more accurately and conservatively;

- the risk governance framework continues to be improved to ensure that risks are identified and mitigated in a more efficient manner; and
- there will be a strategic focus on further diversification of the Good Bank Business, including its product offering, target markets and sources of funding.

Further details about the above key and other improvements proposed in respect of the Good Bank Business are provided in section 4.4 below.

The following information is contained in this section:

- a brief overview of the various entities comprising the New HoldCo Group (section 4.2);
- a summary of the proposed board and corporate governance structures to be established in the New HoldCo Group (section 4.3);
- a description of the Good Bank Business, including further detail in respect of the assets transferred and the liabilities to be assumed by Good Bank on the Transaction Effective Date, the business model of Good Bank and its liquidity and capital position (section 4.4);
- a description of the cell captive arrangement with Guardrisk (section 4.5);
- a summary of the Base Case (including the various Base Case assumptions) used to prepare the Base Case Forecasts for Good Bank (section 4.6); and
- the Good Bank Balance Sheet and Base Case Forecasts for Good Bank during the Base Case Period (section 4.7).

4.2 Overview of the various entities in the New HoldCo Group

4.2.1 *New HoldCo* (*African Bank Holdings Limited*)

New HoldCo will be the ultimate holding company of the group and it will be a bank controlling company as defined in the Banks Act.

All of the ordinary shares in New HoldCo will initially be owned by the Consortium (see section 3.1.2 above). If any Subordinated Funders elect to acquire New HoldCo Shares in terms of the Subordinated Exchange Offer (see section 3.4.1 above), then those Subordinated Funders will also become initial New HoldCo shareholders on the relevant Settlement Date.

It is intended that New HoldCo will ultimately be listed on the JSE to allow an exit opportunity for the initial shareholders and to provide Good Bank with access to equity capital markets. The timing of such a listing will depend on market conditions at the relevant time, the establishment of a group profitability track record that will satisfy investor requirements and Good Bank demonstrating the ability to refinance its maturing debt instruments that fall due in 2018. It is currently contemplated that the shareholders of ABIL will be offered a right to participate in such a listing at the listing price and that such right will rank preferentially as to allocations if the offer is oversubscribed.

The Consortium will provide ZAR10 billion of share capital to New HoldCo immediately before the implementation of the African Bank Restructuring. New HoldCo will apply this share capital to capitalise Good Bank with an equivalent amount of equity share capital. In addition, Subordinated Funders may elect to receive New HoldCo Shares in settlement of the Subordinated Exchange Offer and such New HoldCo Shares will be procured by African Bank through an intra-group capitalisation of New HoldCo and Good Bank (see section 3.4.1 above). As a result, Good Bank will have equity share capital equal to the sum of ZAR10 billion and the Equity Settled Amount taken up as part of the Subordinated Exchange Offer (if any) immediately following the Transaction Effective Date. For purposes of the Base Case Forecasts however, it has been assumed that the Equity Settled Amount will be zero.

4.2.2 *InsureCo* (*African Insurance Group Limited*)

InsureCo will be the holding company for all the present and future insurance interests in the New HoldCo Group. InsureCo will be the controlling company of the insurance group and it will be responsible for monitoring and ensuring compliance with the governance, risk and solvency requirements set out in the applicable insurance sector legislation. InsureCo will be the registered and beneficial owner of the Cell Captive Shares and will be contractually obliged to capitalise and fund the Good Bank Cell (see section 4.5 below).

All of the issued shares in InsureCo will be owned by New HoldCo.

4.2.3 *Good Bank (to be renamed African Bank Limited)*

Good Bank is the newly incorporated entity that will acquire the Good Bank Business from African Bank on the Transaction Effective Date. Good Bank will be a direct, wholly-owned Subsidiary of New HoldCo and it will hold all the licenses, registrations and approvals required to conduct the Good Bank Business (including licenses and approvals required in terms of the Banks Act, the NCA and the Financial Advisory and Intermediary Services Act, 2002).

More detail about the proposed assets, liabilities, operations and business model of Good Bank is included in section 4.4 below.

4.3 Board and Corporate Governance Structures in the New HoldCo Group

The boards of New HoldCo and Good Bank will comprise of the same individuals, at least for the initial period following implementation of the African Bank Restructuring. It may however become appropriate to introduce new or different skills on the various boards if the need arises in future.

Due to the distinct business and regulatory regime for banks and insurers, the InsureCo board will be distinct from the New HoldCo and Good Bank boards (although there will be several common directors).

The Curatorship of African Bank and the proposed establishment of Good Bank have necessitated a rigorous examination of the governance and risk management structures and processes that will be established within the New HoldCo Group. The focus of this process, which is still ongoing, is to clearly and comprehensively define the New HoldCo Group's risk appetite and risk parameters. See also section 4.4.11 below for an overview of improvements that have been made to systems, processes and training to improve general risk management within the Good Bank Business.

Informed by the advice of the group Chief Risk Officer, the New HoldCo board will determine the risk appetite and parameters applicable to the different New HoldCo Group businesses. These risk parameters will address a range of relevant issues, including but not limited to credit risk, market risk, operational risk, liquidity risk, concentration risk and other financial risks.

Risk management must be responsive to continuing changes in the economic and regulatory environment and any changes will be monitored and reported on by the group Chief Risk Officer to the relevant risk committees on a monthly basis. The New HoldCo board will also be regularly informed of changes in the risk environment to enable it to review the continued appropriateness of the prevailing risk appetite and parameters.

All group risk committees will be formed at the New HoldCo level, but they will have responsibility for Subsidiaries, as well. The primary board committees that will oversee risk governance for the New HoldCo board are the Group Risk and Capital Management Committee and the Group Audit Committee. In addition to these committees, it is intended that another three permanent board committees will be established at New HoldCo level:

- a Group Remuneration Committee;
- a Group Ethics, Sustainability and Transformation Committee; and
- a Directors' Affairs/Nominations Committee.

Each board in the New HoldCo Group will have ultimate responsibility for the operations and financial soundness of the enterprise it manages, including ensuring that risks are adequately identified, measured and managed. The boards of the Subsidiaries will however manage their respective businesses in the context of the group risk parameters and policies established by the New HoldCo board group risk committees from time to time.

Eight directors (including the proposed new Chief Executive Officer, Chief Financial Officer and Chairman of Good Bank) have already been identified and have agreed to act as directors of New HoldCo and Good Bank. It is intended that an additional non-executive director will be nominated for appointment in the near future. Some background in respect of the eight directors already nominated for appointment on the mirror boards of New HoldCo and Good Bank is set out below:

Louis Leon von Zeuner (54)
Chairman; non-executive director
B.Econ (Stellenbosch)

Mr von Zeuner is a graduate of Stellenbosch University. He is the chairman designate of Good Bank and New HoldCo and currently serves on the boards of directors of a number of companies (see below). He spent 32 years at Absa Group Limited (now Barclays Africa) ("**Absa**") during which time he acted in various key executive roles. For the three years ending in December 2012, he was the Deputy Group Chief Executive of Absa. From 2007 to 2009 he was the Group Executive Director for Retail and Business Banking at Absa and for the four years prior to that he was the Group Executive Director for Retail Banking at Absa.

Other directorships: AFGRI Limited, Cricket South Africa, South

African Rugby Union, Eqstra Proprietary Limited, MMI Holdings Limited, MMI Group Limited, Telkom SA Limited, Mahela Boerdery Proprietary Limited, MyPlayers Proprietary Limited and Paycorp Investments Proprietary Limited.

Brian Riley (58)

Chief Executive Officer of Good Bank;

Advanced Executive Programme diploma (University of South Africa), Advanced Management Programme (Harvard Business School)

Mr Riley has agreed to serve as the Chief Executive Officer of Good Bank. Mr Riley retired in December 2013 after serving seven years as the Chief Executive Officer of WesBank, a division of FirstRand Bank Limited. As Chief Executive Officer, he oversaw a successful period of growth for WesBank. During this time he was also a member of the FirstRand Bank Limited committee responsible for the formulation and execution of group strategy. Before his time at WesBank, Mr Riley occupied various executive positions at Lloyds and Scottish Finance Group, the Provident Financial Group and Clerical Medical and General Assurance Society.

Gustav Raubenheimer (45)

Chief Financial Officer

B.Com (Hons), CA (SA)

Mr Raubenheimer is the Chief Financial Officer designate of Good Bank. Mr Raubenheimer graduated from the University of Pretoria with a Bachelor of Commerce (Honours) degree, majoring in accounting. He qualified as a chartered accountant in 1994 and as a certified financial analyst in 2003. Mr Raubenheimer has worked for African Bank since 2012 as an executive in credit, customer analysis and strategy. Prior to joining African Bank, Mr Raubenheimer held key positions at Absa Bank, Nedbank Group and FirstRand Bank (FNB division).

Ignatius Simon Sehoole (55)

Independent non-executive director

B.Com, B.Compt (Hons), CA(SA)

Mr Sehoole holds a Bachelor of Commerce degree from Vista University in Pretoria and a Bachelor of Computer Science (Honours) degree from the University of South Africa. He qualified as a chartered account in 1991. Since 2013, Mr Sehoole's occupation has been to serve as a non-executive director on the boards of various companies (see below), several of which directorships he has held for a number of years. Mr Sehoole was Group Executive of Business Risk Management at MTN Group Limited from 2010 to 2013. Prior to that, he was the Deputy Chief Executive Officer of PricewaterhouseCoopers Southern Africa. From 2000 to 2009 he was the Executive President of the South African Institute of Chartered Accountants.

Other directorships: MTN Operations (Swaziland, Rwanda), Mascom (Botswana), Harith Fund Managers Proprietary Limited, SacOil Holdings Limited, CAPIM Proprietary Limited and AFGRI

Proprietary Limited.

Sybille Liane McCloghrie (59)
Independent non-executive director
B.Com (Hons) (Unisa), MBA (Heriot-Watt University Edinburgh)

Ms McCloghrie completed her undergraduate degrees at the University of South Africa and her MBA at Heriot-Watt University Edinburgh. Since 2005 she has been the Chief Executive Officer of Symelation Holdings Proprietary Limited, a technology based company serving, amongst others, financial institutions as well as providing accessible business solutions to small-, medium- and micro sized enterprises. Prior to this, Ms McCloghrie was responsible for the commercialisation and international expansion of Tilos Proprietary Limited, a South African entity operating in the software product development and consultancy space. From 1989 to 2001, Ms McCloghrie worked in various executive roles in service delivery and business development roles at FirstRand Bank Limited (where she attained her banking qualifications), AECI Information Services Proprietary Limited, Electronic Data Systems and IBM Global Services

Other directorships: Symelation Holdings Proprietary Limited.

Frans Johannes Christiaan Truter (60)
Independent non-executive director
B.Com (Hons), CA (SA), AMP (Oxford)

Mr Truter holds a B.Com (Honours) Degree, is a qualified CA (SA) and has an A.M.P. (Oxford) qualification. Mr. Truter served as the Chief Financial Officer of Momentum Group Limited from 1988 to 2004. He then served as the Director of Strategic Investments for Momentum Group. Mr. Truter has been an Independent & Non-Executive Director of MMI Holdings Limited since 2010. He holds a number of other directorships, including those set out below:

Other directorships: MMI Group Limited, Momentum Global Investment Management Limited, MMI Holdings (UK) Limited, Momentum Investments (Pty) Ltd, Hyphen Technology (Pty) Ltd, Nodus Equity (Pty) Ltd.

Basani Maluleke (38)

Independent non-executive director

B.Com (Hons), LLB, MBA

Ms Maluleke holds a Bachelor of Commerce degree majoring in accounting and a Bachelor of Laws degree, both from the University of Cape Town, and obtained her MBA from the Kellogg School of Management, USA in 2011. Ms Maluleke worked as a senior dealmaker at Rand Merchant Bank from 2005 to 2009, and joined First National Bank in 2011 as part of an executive management rotation programme. She is currently a director of Transcend Capital Proprietary Limited and African Century Ventures Proprietary Limited, of which she is also a co-founder.

Other directorships: Transcend Capital Proprietary Limited, African Century Ventures Proprietary Limited, A.T. Kearney Proprietary Limited and Ata Capital Proprietary Limited.

Louisa Stephens (39)

Independent non-executive director

B.Com (Hons), BBusSc (Finance), CA (SA)

Ms Stephens holds a Bachelor of Commerce (Honours) degree from the University of Johannesburg and a Bachelor of Business Science degree from the University of Cape Town. Ms Stephens qualified as a chartered accountant in 2003, having served her articles at KPMG. Ms Stephens worked as a transactor and credit analyst in structured finance at Rand Merchant Bank for five years. Thereafter, Ms Stephens occupied various key positions at the National Empowerment Fund, Circle Capital Ventures, Sasol Group Finance and Nozala Investments Proprietary Limited.

Other directorships: Greymatter and Finch Proprietary Limited, South Ocean Holdings Limited and Royal Bafokeng Platinum Limited.

Further detail about the governance and risk management structures to be established in the New HoldCo Group will be included in the Applicable Offer Documents.

4.4 The Good Bank Business

4.4.1 *Good Bank Assets*

The assets to be acquired by Good Bank from African Bank on the Transaction Effective Date can be categorised as Operational Assets, the Good Book, cash (i.e. the Top-Up Cash Amount plus collateral cash and statutory assets) and goodwill. African Bank's loan claim in terms of the Insurance Funding Facility will also be transferred to Good Bank as an asset on the Transaction Effective Date.

4.4.1.1 Operational Assets

On the Transaction Effective Date, Good Bank will acquire the Operational Assets from African Bank as part of the transfer of the Good Bank Business. The Operational Assets will include a range of fixed assets, immovable property, leases, intellectual property, information technology, business and operational functions and systems. The relevant specified Operational Contracts (including the Hedging Arrangements) will be assigned and transferred to Good Bank by operation of law in terms of section 54 of the Banks Act.

In essence, Good Bank will acquire all the assets, contracts, systems, functions, platforms and arrangements required by it to continue to conduct the Good Bank Business as a going concern after the Transaction Effective Date.

4.4.1.2 The Good Book

The Good Book to be transferred to Good Bank includes both historic Selected Loans and New Loans. All New Loans originated during the Interim Period comply with the new lending criteria and policies introduced on and after the Curatorship Date ("**New Lending Criteria**").

As at 30 September 2015, the gross book value of the Good Book was ZAR29.0 billion and it is forecast that the gross book value will be ZAR29.2 billion as at 1 April 2016.

The Selected Loans included in the Good Book have been selected and agreed between the Curator and the Consortium by applying the following criteria:

- any loans (including limit increases) where the credit score at origination met the New Lending Criteria and were not affected by credit amnesties (i.e. where certain adverse credit information is removed from a credit bureau's records);

- all loans with a written off or rehabilitation status as at Curatorship Date were excluded and allocated to the Residual Book, regardless of whether New Lending Criteria were met;

- all loans to Ellerine Furnishers' customers (i.e. furniture loans) and to those customers who repay on a cash basis were excluded and allocated to the Residual Book, regardless of whether New Lending Criteria were met;

- all loans originated in African Bank branded kiosks in the Ellerine Furnishers' distribution channel were excluded and allocated to the Residual Book, regardless of whether New Lending Criteria were met;

- as Residual Bank will not have a banking licence after the Transaction Effective Date, all active credit card accounts (i.e. where the relevant facility has not been terminated or withdrawn by African Bank) as at the Transaction Effective Date are included in Selected Loans, even though they may not meet the revised borrower criteria in terms of the new more conservative lending model. It should however be noted that significant effort has been made in recent months to withdraw non-performing credit card facilities; and

- the balances of unallocated loans not falling into any of the categories identified above, were allocated to the Residual Book.

Since 2013, credit policies within African Bank have been regularly reviewed to improve the quality of loans disbursed. The lending criteria have been further refined at the inception of Curatorship, and even further during the course of Curatorship, to ensure that the loan portfolio of Good Bank is positioned to improve in quality over the Base Case

Period. All the New Loans included in the Good Book have been originated based on the improved credit policies that have been implemented since the Curatorship Date. The key changes that have been implemented to improve the quality of the loan book can be summarised as follows:

- in the past, credit applications were categorised into 19 groups based on increasing risk profiles (A to S, with S being the highest risk category). Since Curatorship, the credit policy no longer permits the origination of loans in categories R and S (previously the highest risk clients) and loan terms in categories P and Q may no longer exceed 6 months;

- the affordability model has been improved to allow for greater risk differentiation and the NCA minimum expense table is used as a maximum benchmark to test affordability of loans;

- the sales incentive structure has been revised to ensure that loan quality (as opposed to loan volumes) becomes a stronger incentive driver for sales consultants;

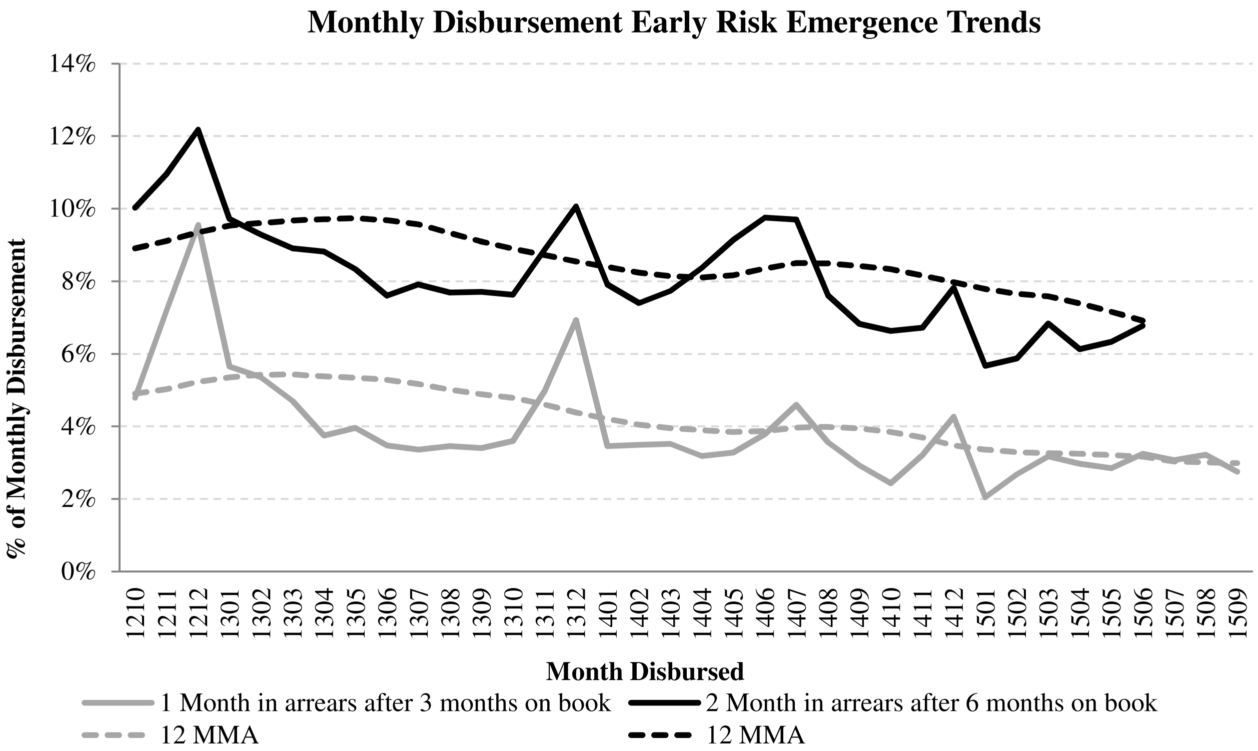
- the maximum loan term has been reduced from 84 months to 60 months;

- the maximum loan size has been reduced from ZAR180 000 to ZAR150 000;

- a new profitability model has been introduced to evaluate profitability by term and loan size and to reduce risk; and

- loans to settle (or refinance) distressed loans are no longer advanced.

The new credit policy has already led to a material improvement in the early risk emergence trends of the African Bank loan book:



12 MMA = 12 month monthly average

In the graph above, the grey lines reflect loans that have missed one or more payments within three months of origination, while the black lines reflect loans that have missed two or more payments within six months of origination. These demonstrate that despite short term volatility, including seasonal underperformance in December, the early risk emergence trend has continued on a downward trajectory overall. The volatility resulting from seasonal trends appear to normalise in subsequent months.

The table below provides key statistics in respect of the composition of the Good Book during Curatorship, forecast up until 1 April 2016:

		Forecast to 1 April 2016
Gross Good Book	ZAR billion	29.2
Credit cards	ZAR billion	6.7
Loans	ZAR billion	22.5
Impairment Provisions	ZAR billion	9.1
Provision coverage	%	31%
		Current business to 30 September 2015 (excluding credit card book)
Average loan size	ZAR	21 638
Average loan term	Months	46.1
Average instalment	ZAR	1 111
Average card limit	ZAR	12 075

4.4.1.3 Cash

It is forecast in the Good Bank Balance Sheet that African Bank will transfer an amount of ZAR7.8 billion to Good Bank as a provisional Top-Up Cash Amount (see section 3.2.3 above), comprising both local and foreign currency (which will, for purposes of the calculation, be converted to ZAR at the spot rate on the Business Day preceding the Transaction Effective Date). The purpose of the Top-Up Cash Amount is to ensure that Good Bank's assets (including goodwill) are equal to the liabilities issued and/or assumed by Good Bank (before the ZAR10 billion equity contributed by the Consortium is taken into account). The provisional Top-Up Cash Amount in the Base Case Forecasts will be verified and reconciled with actual numbers during a true-up process after the Transaction Effective Date.

The Top-Up Cash Amount and the ZAR10 billion equity to be contributed by the Consortium will result in a highly liquid opening statement of financial position that demonstrates a reasonable prospect of Good Bank achieving the CET Target. In addition, it is forecast that ZAR5.0 billion of collateral cash held in terms of the Hedging Arrangements and ZAR3.2 billion of statutory assets (or near cash items) will also be transferred to Good Bank on the Transaction Effective Date. The amount in respect of statutory assets (or near cash items) is forecast at the expected level in African Bank as at the Transaction Effective Date. It must however be noted that statutory assets will have to be adjusted in Good Bank after the Transaction Effective Date to ensure that it is in line with the statutory asset requirements as determined specifically in relation to Good Bank.

The strong capital and liquidity position of Good Bank, and the manner in which it will apply its substantial initial cash resources to strengthen its business model, are discussed in more detail in sections 4.4.12 and 4.4.13 below.

4.4.2 *Good Bank Liabilities*

As consideration for the assets acquired from African Bank, Good Bank will assume and/or issue a range of liabilities on the Transaction Effective Date (i.e. it will be accepting transfer of the Retail Deposit Obligations and the Operational Liabilities and it will be issuing the New Debt Instruments). It is forecast that the aggregate amount of liabilities in Good Bank will be ZAR44.8 billion as at 1 April 2016 but this will be subject to review and true-up after the Transaction Effective Date to take the actual numbers as at the Transaction Effective Date into account.

For purposes of the Top-Up Cash Amount calculation, all liabilities will be taken into account at the actual amount owing and outstanding (or nominal value) (Adjusted For CPI in the case of Index-Linked Instruments). For purposes of Good Bank's financial records, liabilities must be fair valued in accordance with IFRS. The fair value of Good Bank assets and liabilities, including the New Debt Instruments, at the Transaction Effective Date, will be retrospectively assessed by Good Bank after the Transaction Effective Date. Given the absence of the necessary market information at the time of the Offer Information Memorandum to determine the fair value of the New Debt Instruments at the Transaction Effective Date (but taking management's best estimates into account), the Base Case Forecasts assume that the actual amount outstanding in respect of the New Debt Instruments (Adjusted For CPI in the case of Index-Linked Instruments) is the fair value of the liabilities on the Transaction Effective Date. It is however possible that the management of Good Bank will reach a different conclusion when they prepare the Good Bank accounts after the Transaction Effective Date, when more information necessary for a fair value calculation is available.

Good Bank's liabilities on the Transaction Effective Date will comprise:

- liabilities transferred to Good Bank from African Bank in terms of section 54 of the Banks Act, being Retail Deposit Obligations and Operational Liabilities; and

- new debt instruments issued by Good Bank in terms of the Sale of Business Agreement, comprising various categories of New Senior Debt Instruments and up to ZAR1.485 billion of Subordinated Debt Instruments (excluding accrued interest). The New Senior Debt Instruments will accrue interest with effect from the Transaction Effective Date, but the New Subordinated Debt Instruments will accrue interest with effect from (and including) 1 December 2015. For more detail about the Exchange Offers and the nature and terms of the New Debt Instruments, please refer to sections 3.3 and 3.4.

The New Senior Debt Instruments will be classified largely into the following three categories of funding:

- senior EMTNs, comprising USD senior EMTNs and CHF senior EMTNs;

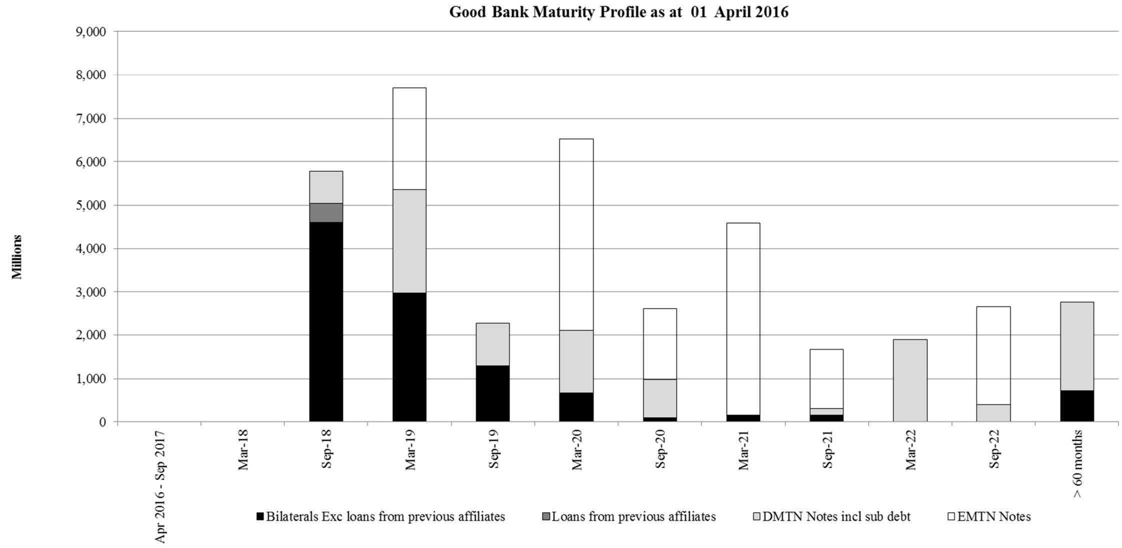
- senior DMTNs, comprising fixed rate notes, floating rate notes and index-linked notes; and

- bilateral corporate deposits (including PNs, NCDs and similar bilateral funding instruments).

All New Subordinated Debt Instruments will qualify as Tier 2 Capital for Good Bank and will be issued in terms of the Good Bank DMTN programme as subordinated DMTNs. The Base Case assumes that ZAR1.485 billion of New

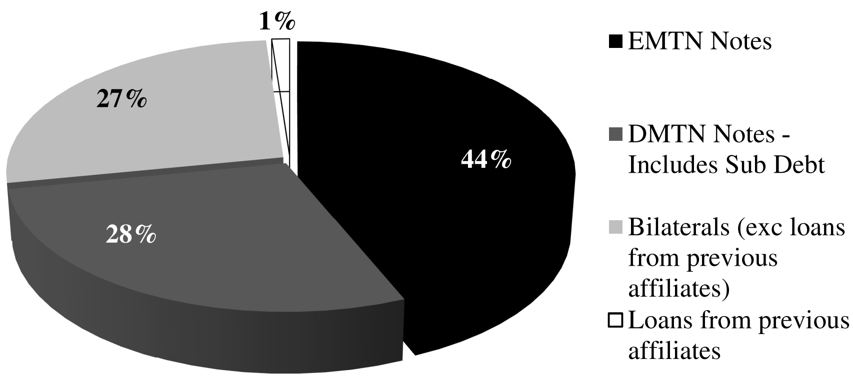
Subordinated Debt Instruments will be issued (excluding accrued interest), but this number may be less if less than 100% of the Existing Subordinated Debt Instruments are exchanged in terms of the Subordinated Exchange Offer and/or if some Subordinated Funders elect to receive New HoldCo Shares instead.

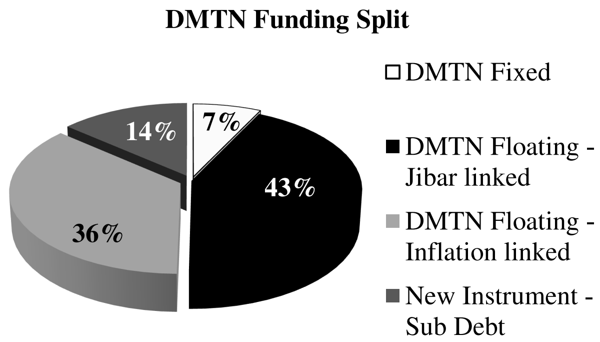
The following graph reflects the expected maturity profiles of the New Senior Debt Instruments, New Subordinated Debt Instruments and loans from previously affiliated companies (including deposits received from Stangen before the Transaction Effective Date) in Good Bank as at 1 April 2016. Note that the numbers below are shown prior to inflation, capitalised interest and forecast roll-overs as described in section 4.4.12 below:

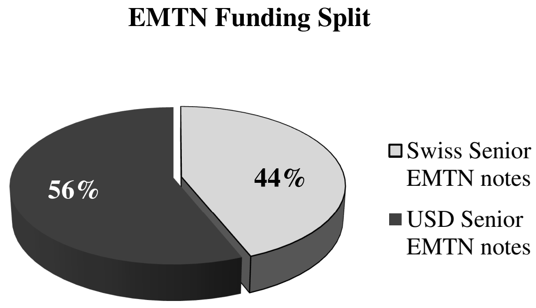


The anticipated composition of the New Senior Debt Instruments and loans from previously affiliated companies (including deposits received from Stangen as a historic member of the group) as at the Transaction Effective Date is illustrated by the following charts (note that for purposes of the charts the EMTN notes have been converted into ZAR at the relevant exchange rate implied in the Base Case Forecasts):

Senior Funding split per category







4.4.3 *Basic Business Model and Product Offering*

For purposes of the Base Case Forecasts, it has been assumed that Good Bank will (at least initially) provide substantially the same product offering as the legacy African Bank. However, the new management team of Good Bank will continuously assess the model and product offering in a changing market to ensure that Good Bank extends its offering to exploit new opportunities, if and when appropriate. The designated management team of Good Bank is reviewing Good Bank's long-term strategy, including potential changes and enhancements to its business model and product offering after the Transaction Effective Date to access new market segments and to prepare for the impact of the New NCR Regulations.

It is anticipated that the core product focus will, at least for the foreseeable future, remain as the provision of unsecured longer term loans of up to 60 months to natural persons for a variety of purposes (i.e. housing, education, emergencies and so forth). These personal loans are normally repayable in equal monthly instalments.

Other products in the existing line that will be continued after the Transaction Effective Date include:

- credit cards provided as a revolving lending facility to customers; and
- retail term deposits (savings products have been offered to individuals since 2013 for terms of 3 - 60 months at competitive rates).

Good Bank will also continue to offer credit life and other insurance products to its customer base in terms of the cell captive arrangement described in section 4.5 below in return for fees and commission payable by the cell captive insurance company on substantially the same basis and terms that previously applied to the relationship between African Bank and Stangen.

The majority of loans are (and it is anticipated will continue in the short to medium term to be) originated through the African Bank branch network. As at the end of September 2015, approximately 2 000 of the total number of employees (approximately 4 500) were employed in 399 branches throughout the country. Other origination channels include: (i) the online channel "Inseconds" which is accessible on the African Bank website, followed by loan completion in a branch (approximately 15% to 20% of loans are originated in this manner); and (ii) outbound calling by the sales call centre to follow up on leads. Almost all loans are currently completed in branches.

In addition to the origination and collection of its own products and the distribution of the cell captive insurance products contemplated in section 4.5 below, Good Bank has been appointed by Residual Bank to collect and administer the Residual Book. For a summary of the proposed fees payable by Residual Bank to Good Bank, please see section 5.2.2 below. The fees payable by Residual Bank to Good Bank for the collection of the Residual Book have been negotiated on arms' length terms and have also been reviewed by an independent expert.

4.4.4 *Impact of New NCR Regulations on the business model and product offering*

On 6 November 2015 the Department of Trade and Industry published the New NCR Regulations. The New NCR Regulations will, inter alia, reduce the maximum interest rate that may be charged on unsecured personal loans from 2.2*Repo Rate + 20% to Repo Rate + 21% (which, based on a Repo Rate of 6.75% at the date of this Offer Information Memorandum, equates to a reduction of approximately 700 basis points). The New NCR Regulations will take effect 6 months after the date of publication. The anticipated impact of the New NCR Regulations on the strategy, business model and product offering of Good Bank is discussed in this section. The Base Case Forecasts have been prepared on the assumption that the New NCR Regulations will apply with effect from 1 May 2016.

The New NCR Regulations are anticipated to affect the Good Bank model and product offering in the following manner:

- more conservative lending criteria will be applied to ensure that risk is appropriately aligned to lower interest rates - this is likely to result in lower loan volumes in general, targeting customers that on average present a lower credit risk, either in absolute terms or because smaller loans may be appropriate for certain customers. This is likely to become a general trend in the market following the implementation of the New NCR Regulations and is not specific to Good Bank; and

- to ensure that the overall yield derived from fees and interest charged on a loan remains aligned to the risk assumed in granting the loan, it is likely that origination fees will be increased on certain products (subject to statutory limits) and that loans will be granted for potentially shorter periods. This will result in origination fees as a percentage of overall yield increasing, while the overall yield on loans are maintained at an acceptable level. Again, this is likely to become a general trend in the market following the implementation of the New NCR Regulations and is not specific to Good Bank.

Assuming that the lending criteria and product offering will be revised in the manner set out above, it is the Curator's opinion that the New NCR Regulations will not have a material impact on the profitability of the Good Bank Business. It is expected that the New NCR Regulations will generally result in smaller loans being disbursed in the market to customers for potentially shorter periods.

The interest rates forecast on the Good Bank loan book, as described in Annexure A5, have been set to ensure that the reduced limits imposed by the proposed NCR amendments are not exceeded.

4.4.5 *More conservative provisioning policies*

More prudent provisioning and impairment policies have been implemented during Curatorship. The following key changes have been made to the impairment models used in producing the financial statements of African Bank for the financial year ended 30 September 2015:

Previous (FY14) policies and practices	**Current (FY15) amended policies and practices**
A loan of a particular CD Status would be cured if at least 90% of a payment was received for a consecutive period of 3 months	Contractual arrears is used to determine CD Status, i.e. no curing logic is applied
The portfolio with a contractual arrears of less than 1 instalment was treated as not having incurred a credit loss event. The contractual CD Status was based on a round down methodology and cured CD's were used.	The contractual CD Status is based on a round up methodology i.e. if the contractual arrears are greater than 0 then the account is reflected as having a CD Status of 1 and a loss event is assumed.
Loans with no default would only be impaired if an adverse event was likely in the following 30 days (i.e. a 30 day emergence period was used).	The emergence period has now been increased to 90 days.
Loans written off only if an NPL and no payment has been received for 10 consecutive months or more.	Loans are fully impaired only if an NPL and no payment has been received for 6 consecutive months.
Provisions calculated based on probabilities of default and losses given default.	Provisions calculated are based solely on observed discounted cash flows.
The written off portfolio had a valuation assigned to it.	The written off book has no value assigned to it.

The details of the changes to the provisioning calculation are outlined in Annexure A5.3.6. Further detail on the changes that have been made to the provisioning policy and practices of African Bank since Curatorship are reflected in the FY14 and FY15 financial statements which are available at https://www.africanbank.co.za/about-us/investors.

The impact of the revised provisioning and impairment policy and practices is included in the Base Case Forecasts included in section 4.7 below.

The changes to the provisioning policy and practices discussed above have resulted in total provisions as a percentage of gross advances increasing (compared to FY13) from 26% to 40% as at 30 September 2015. The changes result in a substantially more conservative and prudent provisioning methodology for the Good Book going forward.

4.4.6 *Workforce and infrastructure*

All African Bank employment contracts in force as at the Transaction Effective Date will transfer to Good Bank. The Curator has focused on retaining key talent during the Interim Period and it is expected that Good Bank will continue this process.

The Curator has managed to avoid the cost and disruption of an extensive retrenchment exercise.

As at the end of September 2015:

- 1 397 staff members have ceased to be employed by African Bank (since the Curatorship); and
- approximately 4 223 employees remained employed on a permanent basis (with a further 277 employees working on a temporary basis).

All the Operational Assets of African Bank will be transferred to Good Bank on the Transaction Effective Date. The Operational Assets include the existing IT systems and infrastructure of African Bank, together with all improvements that have been made during Curatorship.

4.4.7 *Competitive landscape*

Good Bank will continue to compete with both large lenders and smaller short-term lenders.

Banks that provide credit to their customers will comprise a large group of Good Bank's competitors. As at 30 September 2015, there were 16 registered banks, 14 branches of foreign banks, three mutual banks, two cooperative banks and 40 representative offices of foreign banks registered with the office of the Registrar of Banks. The following table sets out the respective market shares of the largest banks in South Africa in relation to unsecured loans and advances to households as at 30 September 2015 and 30 September 2014:

Bank	**Personal loans and advances (percentage)**	
	30 September 2015	**30 September 2014**
Capitec Bank	21.60	19.40
African Bank	21.00	27.30
First National Bank Limited	18.90	15.00
The Standard Bank of South Africa	16.70	14.90
Nedbank Limited	10.10	10.80
Barclays Africa	9.70	9.70
Investec Private Bank	1.00	2.00
Other	1.00	0.90
Total	**100**	**100**

Source: SARB (BA 900 Submissions) as analysed by UBS, adjusted for African Bank's actual advances

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

Despite this competitive landscape, it is anticipated that Good Bank will be well placed to capitalise on African Bank's historically strong position in this market.

4.4.8 *Recent loan disbursement trends and new business generating initiatives*

All New Loans will be transferred to Good Bank on the Transaction Effective Date as part of the Good Book. New Loans have been disbursed in terms of more conservative lending criteria and good market practice (see section 4.4.1.2 above).

Before the Curatorship Date, African Bank had already reduced its credit risk appetite by way of more conservative credit criteria, thereby decreasing its loan disbursement volumes. The trend in loan disbursements over the last two financial years, measured on a quarterly basis, can be seen in the table below. There was a significant reduction in loan disbursements after the Curatorship Date, as evidenced by the drop in the last quarter of FY14**.**

Disbursements (ZAR million)	2015 Financial Year				2014 Financial Year			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
African Bank	2 121	1 712	1 358	1 570	1 363	3 305	3 634	4 568
Credit card	329	302	292	552	554	656	547	657
Ellerines	-	-	-	-	618	554	512	952
Total	**2 450**	**2 014**	**1 650**	**2 122**	**2 535**	**4 515**	**4 693**	**6 177**

The Curator and executive management of African Bank are aware of the fact that the sustainability of the Good Bank Business is dependent on reaching a sustainable level of loan disbursements of an appropriate quality to generate sustainable returns for investors. This is a continuing challenge in a tough economic environment but a number of initiatives have already been established to increase the generation of appropriate levels of new business at appropriate risk levels, some of which are listed below:

- **Branch Improvements**: extended operating hours at strategic locations have led to improved sales. Branches are more closely monitored through revised key performance indicators and incentive structures and this has resulted in overall improved branch performance in the origination of quality loans;

- **New Marketing Campaigns**: a new tone and personality have been included in recent marketing campaigns to generally improve the customer experience. Selected customers are being targeted directly through direct mailing or the call centre to market and promote specific loan products (and an increased number of call centre operatives have been assigned to this initiative). Radio campaigns in regionally dominant languages are used to communicate with hard to reach customers across South Africa; and

- **Digital Sales Channels**: digital channels have been used to improve market presence and to simplify the loan application process for customers. Platforms such as Twitter and Facebook are used more productively for digital marketing and communication. Plans that will enable customers to apply for loans from a mobile phone are being developed.

4.4.9 *Recent loan collection trends and initiatives to improve recoveries*

On average, monthly collections have remained around ZAR2 billion and in line with expectations post Curatorship. Average monthly collections for the period from October 2013 to July 2014 were ZAR2.504 billion, while monthly collections from August 2014 to September 2015 averaged at ZAR2.144 billion, indicating an approximate 14% reduction in monthly average collections since the Curatorship Date. The reduction in average monthly collections since Curatorship is expected in the context of the decreasing size of the loan book, the announcement of Curatorship, poor economic conditions and the loss of the Ellerine Furnishers footprint to collect loans disbursed through this channel.

Since the Curatorship Date, the Bank's collections approach has been improved and the Bank has developed alternative cash collection strategies to address the closure of Ellerine Furnishers stores. Key collections strategies and improvements that have been implemented include:

- incentives introduced for customers to execute debit orders instead of making monthly payments;

- new point of sale and cash acceptance machines have been rolled out across the branch network to increase loan repayment options in the branch; and

- the use of "Easy Pay" facilities introduced in selected retailers to allow loan repayments to be made at retail outlets.

It is anticipated that collections will improve over time as pre-Curatorship Date loans are collected or written off and New Loans advanced on the revised lending criteria make up a bigger proportion of the overall book. The implementation by African Bank of these strategies before the Transaction Effective Date is expected to assist Good Bank with its product and service offering by strengthening the capability of the branches, and widening the service points that clients can use to repay their loans.

4.4.10 *Cost reduction strategies*

The Curator, in conjunction with the management team, has focused on cost reduction strategies that could lead to sustainable annualised savings for Good Bank. An annualised saving of approximately ZAR256 million has been identified to date (which is forecast to increase to an annualised saving of ZAR591 million during the Base Case Period), based on the following savings strategies:

- a retrenchment program for 54 senior employees was implemented in February 2015 at the Midrand head office of African Bank;

- centralisation and rationalisation of some functions to reduce duplication, including human resources, training, finance and some risk areas;

- negotiating preferential third party supplier rates (e.g. marketing and legal collection fees); and

- potential branch rationalisation and savings resulting from lower collection volumes as the Residual Book is collected (see Annexures A5.4.3).

4.4.11 *Improved risk governance framework*

The Curatorship of African Bank has necessitated a rigorous re-examination of the Group's risk management framework. A fundamental difference in the Group's enhanced risk management has been to clearly define the Group's risk appetite and risk parameters. In addition, a rigorous and robust enterprise risk structure has been implemented in an attempt to ensure that risks are mitigated and managed within the group's risk appetite and parameters. The risk framework in African Bank (from origination to back office functions) has been improved through the implementation of the following operational changes (amongst other things):

- anti-money laundering (AML) applications have been acquired, which includes automated customer screening-, risk assessment- and transaction monitoring applications;

- processes and policies in respect of money laundering and counter terrorism financing have been reviewed in detail and certain revisions to these processes and policies have already been implemented by management;
- biometrics (in addition to an ID document) are now used to identify customers;
- enterprise risk and compliance departments' competency and capacity augmented;
- bank statements are now acquired electronically from the issuing bank as well as from the client directly; and
- a new electronic document management system has been installed to digitise all customer documents.

4.4.12 *Liquidity of Good Bank*

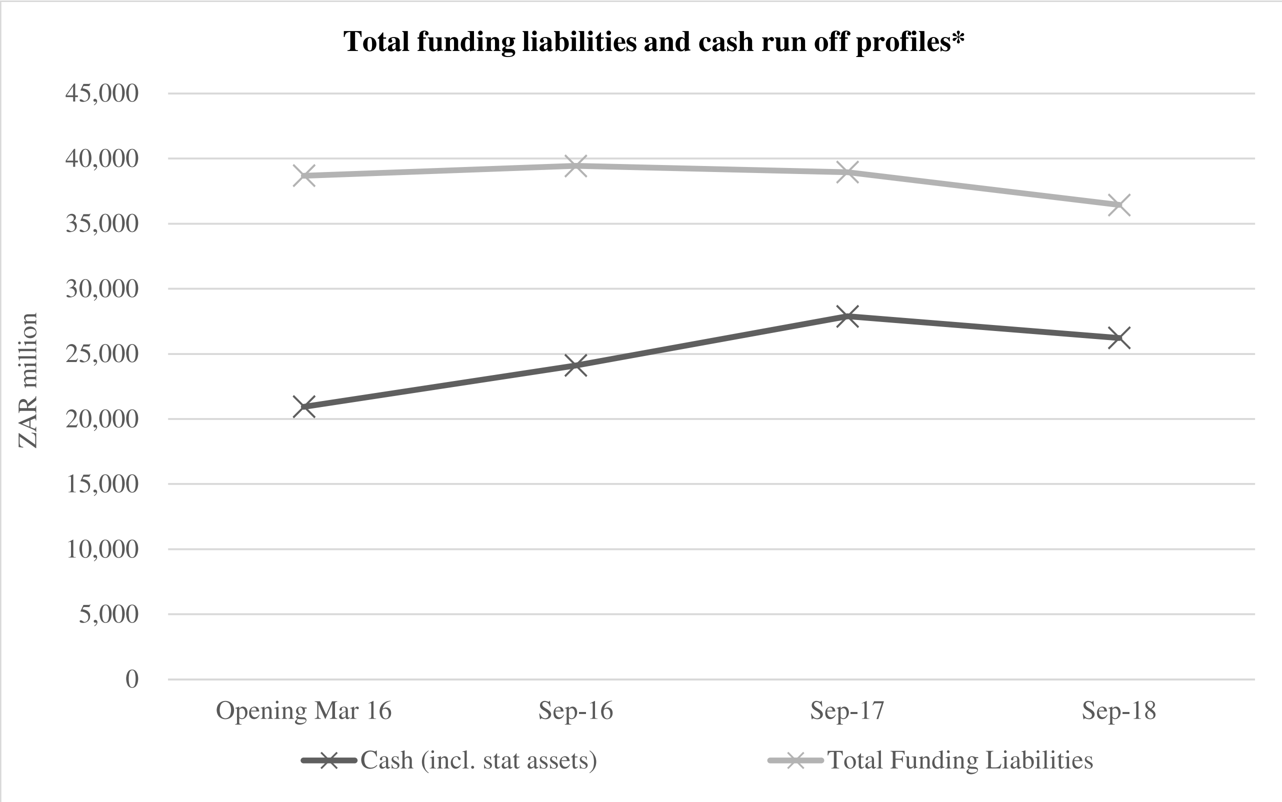
It is forecast that Good Bank will have an opening cash balance of ZAR19.4 billion (excluding collateral cash and statutory assets) as at 1 April 2016. The opening cash balance comprises the Top-Up Cash Amount, the ZAR10 billion capital contributed by the Consortium and a portion of the statutory assets received from Residual Bank that is converted to normal cash (due to different statutory asset holding requirements in Good Bank - see Annexure A5.1 and section 4.7.1 below).

It is currently envisaged that a portion of this cash will be held in foreign currency as an economic hedge against the projected foreign exchange rate movements during the Base Case Period.

It is anticipated that Good Bank will maintain a conservative liquidity policy after the Transaction Effective Date and Good Bank is forecast to have a strong liquidity base for the duration of the Base Case Period.

The first New Debt Instruments will mature two years after the Transaction Effective Date (i.e. by the First Maturity Date). Operating cash levels are expected to further increase over this two year period because collections are currently forecast to exceed loan disbursements and operating costs up until the First Maturity Date. The high level of cash in Good Bank will mitigate the refinancing risk and, under the Base Case assumptions (see section 4.6), it is not forecast that any funds will need to be raised in the DMTN or EMTN markets during the Base Case Period. Given that funders are likely to require Good Bank to first build up a strong track record before they reinvest, it is important to ensure that Good Bank has sufficient cash available to grow its loan book while it builds a track record of profitability and improves overall investor confidence.

The graph below indicates the forecast increase in cash relative to liabilities up to the end of FY17, followed by a forecast decrease as a result of bilateral funding that matures. In the Base Case scenario it is expected that Good Bank will have sufficient liquidity to repay its funding liabilities that mature during the Base Case Period (i.e. up until the end of September 2018). The Base Case assumes that no EMTNs or DMTNs in Good Bank will be refinanced during the Base Case Period (i.e. EMTNs and DMTNs that mature during this period are likely to be repaid in cash). However, with regard to bilateral funding (i.e. funding other than through the Good Bank EMTN and DMTN programmes, and loans from previously affiliated companies), the Base Case assumes that 65% of the bilateral funding instruments that mature during the Base Case Period will be renewed and reinvested with Good Bank on the same terms. It is worth noting that African Bank regularly achieved a "roll-over" rate of above 80% on this basis in the past. Similarly 100% of loans from previously affiliated companies are assumed to be renewed on the same terms.



**Total funding liabilities include all treasury funding, subordinated notes and loans from previously affiliated companies. Cash includes all short-term deposits and cash, foreign cash and statutory assets.*

Following a review of rates currently achieved by African Bank, the Base Case assumes that ZAR, USD and CHF cash balances will be invested at annual rates of 6.76%, 1.50% and 0.0% respectively as at the Transaction Effective Date, with ZAR rates increasing throughout the Base Case Period in line with forecast increases in the Repo Rate as outlined in Annexure A5. It is assumed that interest payable on debt varies over the Base Case Period, based on detailed calculations with reference to the specific interest rates applicable to the underlying instruments. Whilst developing the Good Bank strategy, the management of Good Bank will consider various options to reduce or avoid the impact of this negative carry and these options may include a reduction of liabilities and/or investments in growth, and diversification opportunities and operational improvements.

The historic cash and liquidity ratios of African Bank are illustrated in the table below:

	2011	**2012**	**2013**	**Pre Curatorship (10 August 2014)**	**Good Bank(1 April 2016)**
Cash and cash equivalents (ZAR billion) including statutory assets and collateral cash	5.5	6.3	6.9	4.4	25.9

	2011	2012	2013	Pre Curatorship (10 August 2014)	Good Bank(1 April 2016)
Total Liabilities (ZAR billion)	35.3	47.1	55.8	49.9	44.8
Cash and equivalent/Total Liabilities (%)	16%	13%	12%	9%	58%

The forecast future cash and liquidity ratios of Good Bank during the Base Case Period (including the Liquidity Coverage Ratio ("**LCR**") required in terms of Basel III) are illustrated in the table below (please see section 4.6 and 4.7.2 below for a more detailed description of the Base Case and the forecast performance of Good Bank during the Base Case Period):

Good Bank forecasts		**1 April 2016**	**30 Sep 2016**	**30 Sep 2017**	**30 Sep 2018**
Cash and equivalents incl. statutory assets and collateral cash	ZAR billion	25.9	27.9	28.9	26.9
Total Liabilities, incl. collateral liabilities	ZAR billion	44.8	44.2	41.0	38.2
Cash and equivalent/Liabilities	%	58%	63%	70%	70%
Liquidity Coverage Ratio	%	>150%	>150%	>150%	>150%

The LCR requirement came into effect on 1 January 2015, with a minimum required ratio of 60% that will increase to 100% by 2019. The LCR of Good Bank is significantly above the regulatory minimum thresholds. The reported numbers do not fully reflect the significant short-term liquidity surplus of Good Bank because in calculating the LCR, net cash flows over a 30 day period on a contractual basis is determined by limiting cash inflows to 75% of cash outflows. Given the substantial cash held by Good Bank over the Base Case Period, the 30 day liquidity of Good Bank is significantly in excess of the ratios suggested by the LCR. The LCR disclosed under the 30 September 2018 column is the ratio for 31 August 2018 based on September 2018 modelled cash flows as cash flows are not modelled beyond the Base Case Period.

Good Bank has significant currency exposures in CHF and USD as a result of foreign currency liabilities and cash. Good Bank is also compliant with the minimum LCR requirements for these currencies during the Base Case Period.

All forecasts have been prepared on the assumption that the fair value of the New Debt Instruments is equal to their nominal value as at the Transaction Effective Date (see section 4.4.2 above).

4.4.13 *Equity and capital in Good Bank*

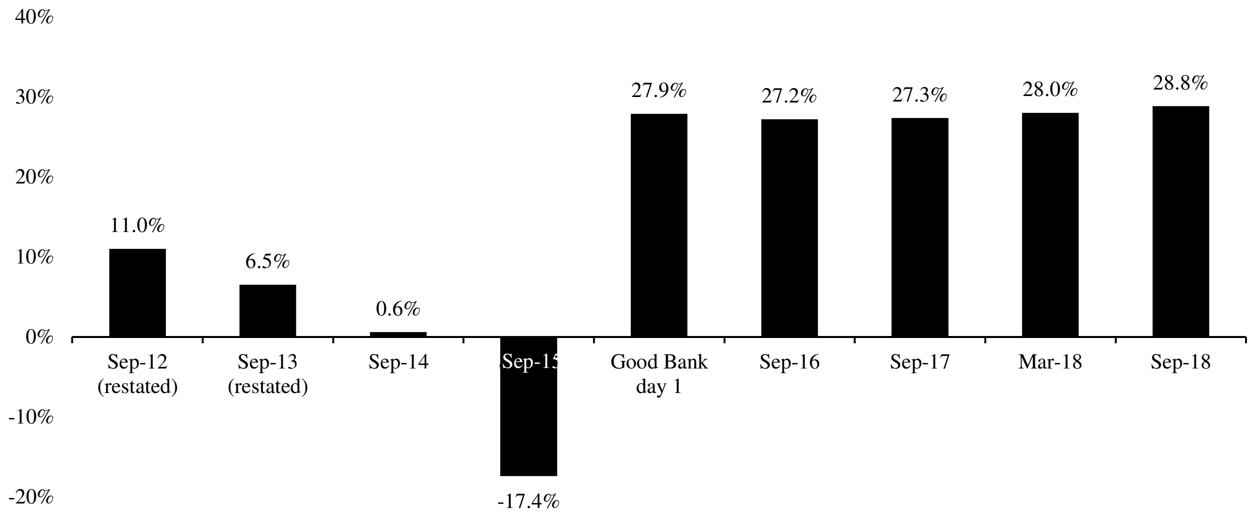
If the African Bank Restructuring is implemented, then the Consortium will capitalise New HoldCo with ZAR10 billion of cash through a subscription for New HoldCo Shares. New HoldCo will likewise capitalise Good Bank with equivalent equity subscriptions of ZAR10 billion. As such, Good Bank will have a strong opening capital position.

Good Bank may have more than ZAR10 billion of equity on the Transaction Effective Date if any Subordinated Funders elect to receive New HoldCo Shares instead of New Subordinated Debt Instruments in settlement of the Subordinated Exchange Offers. Section 3.4.1 above explains the manner in which the settlement mechanism elected by Subordinated Funders may ultimately result in an increase of equity in Good Bank. However, for purposes of the Base Case, it has been assumed that 100% of the Existing Subordinated Debt Instruments are exchanged in terms of the Subordinated Exchange Offer and that no Subordinated Funder has elected to receive any New HoldCo Shares (i.e. it is assumed that Good Bank will have ZAR10 billion of equity and ZAR1.485 billion of New Subordinated Debt Instruments in issue as at the Transaction Effective Date (excluding accrued interest from 1 December 2015 up until but excluding the Transaction Effective Date, which will be paid in full by Good Bank on the Transaction Effective Date).

The African Bank Restructuring is premised on a Good Bank Balance Sheet that demonstrates a reasonable prospect of Good Bank achieving the CET Target. For purposes of calculating Common Equity Tier 1 Capital, liabilities must be fair valued. To avoid the risk of Good Bank missing the CET Target purely as a result of the New Debt Instruments trading above nominal value, Good Bank has approached SARB for a specific dispensation that will allow Good Bank to use the actual amount outstanding (or nominal value) in respect of the New Debt Instruments (Adjusted For CPI in the case of Index-Linked Instruments) for purposes of this calculation and SARB has consented to this request.

The graph below indicates how Good Bank, in a Base Case scenario, is significantly better capitalised throughout the Base Case Period than African Bank historically:

Common Equity Tier 1 ratio



Forecast ratios as at 1 April 2016 and during the Base Case Period

The following table illustrates the forecast Regulatory Capital adequacy, Risk Weighted Asset (RWA) requirements, and leverage ratios of Good Bank during the Base Case Period, based on the Base Case Forecasts in section 4.7 below:

Good Bank		**1 April 2016**	**30 Sep 2016**	**30 Sep 2017**	**First Maturity Date**	**30 Sep 2018**
Common Equity Tier 1 Capital Ratio	(%)	27.9%	27.2%	27.3%	28.0%	28.8%

Good Bank		1 April 2016	30 Sep 2016	30 Sep 2017	First Maturity Date	30 Sep 2018
Tier 2 Capital ratio	(%)	6.3%	6.1%	5.9%	5.9%	5.7%
Total Capital Adequacy Ratio	(%)	34.1%	33.3%	33.3%	33.9%	34.5%
Qualifying CET 1 capital	ZAR billion	7.95	7.90	8.32	8.51	9.14
Qualifying Tier 2 capital	ZAR billion	1.79	1.79	1.80	1.79	1.81
Qualifying Total capital	ZAR billion	9.73	9.69	10.12	10.30	10.95
Risk Weighted Assets	ZAR billion	28.5	29.09	30.43	30.40	31.73
Leverage ratio	(%)	>12%	>12%	>12%	>12%	>12%

4.4.14 *Credit rating*

Given the importance of continued access to wholesale institutional funding, it is important for Good Bank to obtain and maintain a public credit rating on its debt funding instruments. Good Bank will obtain an issuer's rating as well as a rating for the EMTN programme and the EMTNs from Standard & Poor's Rating Services. As at the date of this document, Good Bank holds a global scale foreign currency preliminary long term issuer rating of B+ from Standard & Poor's Rating Services.

4.4.15 *The Good Bank Indemnity*

On the Transaction Effective Date, Residual Bank will issue the Good Bank Indemnity to Good Bank and SARB will guarantee Residual Bank's contingent obligations to make any indemnity payments to Good Bank.

The Good Bank Indemnity will ensure that Good Bank is adequately indemnified against any losses or liabilities suffered by Good Bank in respect of the Good Bank Business, to the extent that they: (i) result from any facts, events, circumstances, acts and/or omissions that exist on the day before the Transaction Effective Date; and (ii) are not taken into account in the Top-Up Cash Amount calculation. The Good Bank Indemnity will provide indemnity cover up to a maximum aggregate amount of ZAR3 billion, provided that Good Bank has notified Residual Bank of the relevant claims and/or losses by or before the eighth anniversary of the Transaction Effective Date.

4.4.16 *Material Risk Factors*

The material risk factors that may impact upon the performance of the Good Bank Business are discussed in Annexure D.

4.5 Cell Captive Arrangement

African Bank's sister company Stangen will not form part of the New HoldCo Group.

Instead, a new cell captive insurance arrangement has been established between Guardrisk and InsureCo with effect from 17 January 2016. All customers taking up New Loans after 17 January 2016 and all credit card customers (both new and existing) will be offered insurance products issued by Guardrisk in terms of this new arrangement.

The current understanding is that loans in the Good Book and the Residual Book that are already insured by Stangen as at 17 January 2016 will continue to be insured by Stangen, subject to the termination of those insurance arrangements on the basis of refinancing, repayment, lapsing or otherwise in due course.

Guardrisk is a registered and licensed long-term insurance company that has been conducting cell captive insurance business in South Africa for over 16 years. It has already established a portfolio of multiple cells owned by a variety of different shareholders. Guardrisk is a wholly owned Subsidiary of MMI Group Limited

4.5.1 *What is cell captive insurance?*

Cell captive insurance is normal insurance cover provided by a registered insurance provider. The insurance company, both from a regulatory, insolvency and general corporate law perspective, is a separate juristic person subject to the same rules, regulations and requirements as any other registered insurer. The insurer must comply with all the solvency, liquidity and capital adequacy requirements applicable to insurance companies in the same category and it will underwrite and carry risks towards its policyholders as a licensed insurance company in the ordinary course.

The main distinguishing factor is that a cell captive insurer issues different classes of shares to its various shareholders. Each class of share is linked to a particular cell in the insurer and enables the relevant shareholder (or cell owner) to share in the profits of the relevant cell through dividends. Each shareholder is also contractually obliged to capitalise its cell from time to time: (i) to ensure that the cell complies with regulated capital and solvency requirements at all times; and (ii) to absorb any underwriting losses that may arise. As such, each shareholder effectively carries the risk and shares in the benefit of the insurance business in the cell linked to that shareholder's class of shares.

A cell is a notionally segregated portion of the business of the insurance company, ring-fenced through contractual arrangements between the cell captive insurance company and its various shareholders. A cell does not constitute a separate legal entity and it is not a statutory ring-fenced structure - it is merely a reference to a specific portion of the insurer's business.

Cell captive insurance is widely used and accepted in the South African insurance market.

4.5.2 *The relationship between InsureCo and the cell captive insurer*

InsureCo has subscribed for a separate class of shares in Guardrisk ("**Cell Captive Shares**"), linked to a specific and contractually ring-fenced cell. The cell will consist of all the insurance business introduced by Good Bank to Guardrisk (see section 4.5.3 below) ("**the Good Bank Cell**").

If an underwriting profit is made in the Good Bank Cell, then InsureCo will have a right to the profits (or dividends) in its capacity as shareholder. If an underwriting loss is made, InsureCo will be contractually obliged to subscribe for further Cell Captive Shares to contribute sufficient capital to absorb the loss.

The right to dividends in the event of an underwriting profit is subject to the overall solvency and liquidity of the insurer, as well as its ability to pay dividends subject to the Companies Act and applicable insurance laws. Accordingly, if losses in excess of existing solvency buffers are suffered in other cells and the relevant other shareholders default on their capitalisation obligations, then the ability of the insurer to pay dividends in respect of profitable cells may be affected.

To mitigate the risk of cross-contamination between cells, all major cell captive insurers in South Africa already require that shareholders maintain their cells in a financially sound condition by (for example) prescribing minimum capital holding requirements. The regulator is also in the process of drafting legislation that will make certain minimum solvency requirements in each cell a statutory obligation.

To further mitigate this risk, the holding company of the cell captive insurer (in this case Guardrisk Group Proprietary Limited) holds a particular class of shares constituting a so-called promoter cell. The promoter cell is intended to contain sufficient capital to absorb losses suffered in loss-making cells where the relevant shareholders fail to comply with their contractual funding obligations. The quantity of promoter capital required from time to time is determined on an actuarial basis.

Although profits derived from the Cell Captive Shares will be available to recapitalise Good Bank if required, such recapitalisation is not included in the Base Case Forecasts. The Top-Up Cash Amount together with the Consortium equity capital, allows Good Bank a reasonable prospect of achieving the CET Target.

Guardrisk will earn two notional fees from the Good Bank Cell: (i) a management fee based on a percentage of premiums, subject to a fixed annual maximum fee (increasing annually by inflation); and (ii) an investment fee based on a percentage of the net investment income and realised net capital gains earned from the Good Bank Cell investment fund (being all cash and retained earnings attributable to the Good Bank Cell). These fees will reduce the profits in the Good Bank Cell available for distribution to InsureCo. The fees are referred to as notional because there is no legal liability imposed upon Good Bank to pay the fees. The notional fees that accrue to Guardrisk are subtracted from the ring-fenced profit allocation available for distribution to InsureCo. The profits so deducted (being the amount of notional fees) are then accounted for as promoter profit and paid to Guardrisk as a dividend on its shares.

4.5.3 *The relationship between Good Bank and the cell captive insurer*

Good Bank will enter into the required intermediary-, binder- and/or outsourcing agreements with Guardrisk pursuant to which Good Bank will market Guardrisk policies to its customers and will earn fees and commission from Guardrisk in this regard (please refer to Annexure A5 which stipulates the assumptions used to forecast these fees and commissions during the Base Case Period).

4.5.4 *Funding and capitalisation of the Good Bank Cell*

InsureCo will be contractually obliged to keep the Good Bank Cell in a financially sound condition. Further capital required to meet minimum capital holding requirements and to absorb any underwriting losses that may arise from time to time will be paid to Guardrisk in the form of a subscription for further Cell Captive Shares.

Since the insurance arrangement has been established before the Transaction Effective Date, African Bank will in the interim provide the financial support required by InsureCo to meet its funding obligations by advancing loans to New HoldCo before the Transaction Effective Date ("**the Insurance Funding Facility**"). African Bank's rights and obligations in terms of the Insurance Funding Facility will be transferred to Good Bank as part of the Good Bank Business so that Good Bank will effectively fund the arrangement after the Transaction Effective Date. After the Transaction Effective Date, InsureCo will further capitalise the Good Bank Cell as and when required by utilising its own cash resources, or otherwise raising funding from Guardrisk and/or New HoldCo. It is currently anticipated that the Good Bank Cell will require up to ZAR150 million of capital during its first year of operation.

If the African Bank Restructuring is not implemented, then African Bank will have access to all capital and profit in the Good Bank Cell through a contractual arrangement that will effectively result in African Bank acquiring 100% of the issued shares in New HoldCo.

The initial salient terms of the Insurance Funding Facility can be summarised as follows: (i) the loan will be secured by a pledge of New HoldCo's shares in InsureCo; (ii) outstandings will accrue interest at JIBAR plus 320 basis points; and (iii) all capital and accrued interest will be repayable in full by the fifth anniversary of the initial draw-down date.

4.6 The Base Case used to prepare the Base Case Forecasts

The Base Case Forecasts have been prepared based on a base case scenario where:

- it is assumed that Good Bank will continue to conduct an unsecured debt offering to natural persons, based on the existing capabilities within African Bank. As discussed above, the new management team of Good Bank will extend the product offering and/or access different market segments, but any potential benefits arising from such revised strategies are not included in the Base Case;

- it is assumed that the Transaction Effective Date will occur on 1 April 2016. For practical purposes however the actual Transaction Effective Date is scheduled to occur on Monday 4 April 2016;

- it is assumed that, save for an increase in JIBAR, the Repo Rate and inflation over the Base Case Period, economic conditions will remain broadly the same as they were on the date of this Offer Information Memorandum;

- goodwill of ZAR1.7 billion is reflected in the Good Bank Balance Sheet. A provisional assessment of the forecast carrying value of goodwill in terms of the forecast assumptions indicates that goodwill may have to be impaired after the Transaction Effective Date. As a result, it has been assumed in the Base Case Forecasts that goodwill is impaired. This assessment will be reconsidered after the Transaction Effective Date;

- foreign exchange rates are assumed to fluctuate during the Base Case Period in line with market expectations as detailed in Annexure A5.6.4. The financial effect of exchange rate movements on the foreign currency funding liabilities, derivative hedging contracts and foreign currency cash of Good Bank have been incorporated in the Base Case Forecasts;

- it is assumed that ZAR1.485 billion of New Subordinated Debt Instruments are issued by Good Bank (all of which will have accrued interest from 1 December 2015) and that no Subordinated Funders will elect to receive New HoldCo Shares instead;

- it is assumed that 65% of the senior bilateral funding instruments, and 100% of existing loans from previously affiliated companies, that become due and payable during the Base Case Period will be reinvested in Good Bank on the same terms, but that all senior EMTNs and DMTNs that mature during this period will be repaid;

- it is assumed that Good Bank ZAR, USD and CHF cash balances will earn returns of 6.76%, 1.50% and 0.00% respectively from the Transaction Effective Date, with the ZAR returns generally increasing with the assumed Repo Rate throughout the Base Case Period (refer to Annexure A5 for detailed assumptions);

- an additional annual cost saving of ZAR591 million has been assumed over the Base Case Period (see section 4.4.10 above);

- it is assumed that the fair value of New Debt Instruments equals the nominal value (or amount outstanding) as at the Transaction Effective Date (Adjusted For CPI in the case of Index-Linked Instruments). IFRS requires the New Debt Instruments to be fair valued at the Transaction Effective Date and it is possible that the fair value determined by Good Bank may be different to the nominal value (or amount outstanding); and

- it is assumed that cost of debt funding varies over the Base Case Period, based on detailed calculations with reference to the specific contractual interest rates applicable to the underlying instruments and after considering the effective cost of hedging and derivatives.

The Base Case Forecasts include the material improvements that have been made to the credit and provisioning policies and operating model of the Bank as discussed in section 4.4 above. However, it is envisaged that the business model of Good Bank will be further enhanced by the new management team to exploit the strong capital and liquidity position of Good Bank, which may result in a better outcome than forecast in the Base Case Forecasts.

A list of the principal assumptions and financial information used to prepare the Good Bank Balance Sheet and Base Case Forecasts are included in Annexure A5. Please also refer to Annexure D which details the risk factors that could potentially affect the Good Bank Business and result in the Base Case Forecasts not being achieved.

Please note that although the Curator has prepared the Good Bank Balance Sheet and the Base Case Forecasts in good faith, forecasts are inherently subjective, uncertain and unpredictable in nature. If the key assumptions used to prepare the Base Case turn out to be incorrect in any material respect, the actual outcome may be worse or better than the Base Case Forecasts included in this Offer Information Memorandum. The Base Case assumptions are also not an exhaustive list of all the assumptions that have been made. You should form your own view and, if required, obtain your own advice in respect of the potential future performance of Good Bank.

4.7 Good Bank Balance Sheet and Base Case Forecasts

4.7.1 *Good Bank Balance Sheet*

The Base Case, based on the various assumptions listed in section 4.6 read with Annexure A5, indicates a reasonable prospect of Good Bank achieving the CET Target.

In a Base Case scenario, and subject to the various Base Case assumptions (see section 4.6 and Annexure A5), Good Bank will commence its operations with a forecast opening statement of financial position represented by column G in the table on the next page.

ZAR million	A African Bank (before the African Bank Restructuring)	B Adjustments to arrive at Good Bank Business	C Good Bank Business before the African Bank Restructuring	D Exchange Offers	E VAT incurred in respect of acquired assets	F Equity injection	G Good Bank Balance Sheet
ASSETS							
Short-term deposits and cash (including collateral cash)	20 769	(7 996)	12 773	1 645		10 000	24 418
Statutory assets	3 162		3 162	(1 645)			1 517
Derivatives and other assets	5 823		5 823		116		5 939
Net advances	24 936	(4 853)	20 083	93			20 176
Loans to affiliated companies	152		152				152
Property and equipment	400		400	105			505
Intangible assets	68		68	63			131
Goodwill				2 055	(331)		1 724
Total assets	**55 310**						**54 562**
LIABILITIES AND EQUITY							
Collateral liabilities	4 993		4 993				4 993
Other liabilities	1 049	(84)	965				965
Fair value derivatives liabilities	32		32				32
Bonds and other long-term funding	52 179	(52 179)		36 588			36 588
Subordinated bonds, debentures and loans	5 306	(5 306)		1 559			1 559
Loans from affiliated companies	671	(134)	537				537
Deferred tax liability				103			103
Total liabilities	**64 230**						**44 777**
Ordinary share capital and premium	14,404	(14 404)				10 000	10 000
Reserves and accumulated losses	(23 324)	23 324			(215)		(215)
Total equity (capital and reserves)	**(8 920)**						**9 785**
Total liabilities and equity	**55 310**						**54 562**

In preparing the Good Bank Balance Sheet, the African Bank statement of financial position has been forecast from 30 September 2015 to 31 March 2016, and a Transaction Effective Date of 1 April 2016 has been assumed. Further detail in respect of the financial information used to prepare the Good Bank Balance Sheet is included in Annexures A4 and A5. The Good Bank Balance Sheet (column G in the table above) is derived as follows:

- the African Bank assets and liabilities that will not be transferred to Good Bank on the Transaction Effective Date (determined as at the Transaction Effective Date) are deducted (column B) from the African Bank statement of financial position (column A). These are essentially the assets and liabilities that will remain behind in Residual Bank (see section 5);

- in terms of IFRS, a fair value adjustment is applied to the Good Book and the property and equipment transferred to Good Bank, including the African Bank brand (column D). In accordance with IFRS 3 Business Combinations, Good Bank is viewed as the acquirer of the Good Bank Business and it is required to perform a fair value exercise on the assets and liabilities acquired. The assumptions that underlie the fair value calculation in column D are explained in more detail in Annexure A5. This component of the Good Bank Balance Sheet is discussed in further detail in section 4.7.1.1 below. The fair value of the New Debt Instruments is assumed to be equal to their nominal value on the date of issue;

- a goodwill amount of ZAR1.7 billion arises (column G), indicating the difference between the fair value of the assets acquired and the liabilities assumed in return (see section 4.7.1.2 below), after adjustment for VAT assumed to be payable in respect of the acquired assets (see next bullet point below);

- it is assumed that ZAR331 million of VAT will be payable in respect of the acquisition of the Good Bank Business (column E). VAT may become due on the property and equipment, intangibles and goodwill acquired by Good Bank (the remainder of the assets is exempt from VAT). It is assumed that ZAR116 million of VAT will be recoverable from SARS, which is broadly in line with the historic apportionment of VAT in African Bank. The potentially irrecoverable portion is recorded in reserves at the Transaction Effective Date and recycled as a charge through the statement of profit or loss in year one. The parties to the Sale of Business Agreement have applied to SARS for certain VAT rulings that, if successful, will reduce the amount of VAT incurred and/or the irrecoverable portion thereof; and

- the ZAR10 billion equity to be provided by the Consortium is reflected in column F.

4.7.1.1 The fair value adjustment

It is currently estimated that the forecast fair value of the Good Book will be ZAR93 million more than the net book value ("**the Fair Value Adjustment**"). It is required in terms of IFRS that the Fair Value Adjustment must be unwound over the period of the assets to which it relates. The Base Case Forecasts below accordingly include, within the forecast statement of profit or loss, an annual cost to unwind the Fair Value Adjustment, which results in an impact on the forecast profitability of Good Bank.

4.7.1.2 The goodwill

The amount by which the total liabilities assumed and/or issued by Good Bank on the Transaction Effective Date exceed the fair value of the Good Bank assets and cash is reflected as goodwill in the Good Bank Balance Sheet. The value of the assets and the Top-Up Cash Amount have been agreed between Good Bank and the Curator, subject to a review and adjustment mechanism, on a basis that will afford Good Bank, in a Base Case scenario (and subject to the various Base Case assumptions) a reasonable prospect of achieving the CET Target. The interaction between these components of the Good Bank Balance Sheet results in a forecast ZAR1.7 billion goodwill amount as at 1 April 2016.

A detailed fair value exercise will be conducted after the Transaction Effective Date to determine the fair value of the assets and liabilities as at that date. The outcome of this exercise will determine the ultimate amount of goodwill in the Good Bank balance sheet as at the Transaction Effective Date.

IFRS does not require goodwill to be amortised. Goodwill must however be assessed annually for impairment. The current provisional assessment of the forecast carrying value of goodwill in terms of the Base Case assumptions indicates that goodwill may have to be impaired after the Transaction Effective Date and therefore it has been assumed that goodwill will be impaired. The position will be re-assessed after the Transaction Effective Date.

4.7.2 *Base Case Forecasts for Good Bank*

4.7.2.1 Good Bank forecast statement of financial position up until FY18

ABRIDGED STATEMENT OF FINANCIAL POSITION FOR GOOD BANK

ZAR million	**Forecast as at 1 April 2016**	**Forecast as at September 2016**	**Forecast as at September 2017**	**Forecast as at September 2018**
Assets				
Short-term deposits and cash	15 681	15 586	14 832	10 459
Foreign Cash	3 744	7 193	12 055	14 489
Collateral cash	4 993	3 807	1 032	686
Statutory Assets	1 517	1 333	990	1 269
Fair value derivative asset	5 697	3 807	1 032	686
Other assets	242	241	126	127
New HoldCo loan	152	160	177	196
Net advances	20 176	19 433	18 389	18 745
Gross advances *	29 207	28 828	27 659	27 743
Advances fair value true-up*	93	69	33	13
Deferred administration fees*	(19)	(19)	(19)	(19)
Impairment provisions*	(9 105)	(9 445)	(9 284)	(8 992)
Net deferred tax asset	-	20	110	85
Property and equipment	505	528	553	550
Intangible assets	131	123	106	89
Goodwill	1 724	-	-	-
Total assets	**54 562**	**52 231**	**49 402**	**47 381**
Liabilities and equity				
Collateral liabilities	4 993	3 807	1 032	686
Other liabilities	1 502	1 517	1 551	1 587
Fair value derivative liability	32	6	1	-
Treasury funding - existing	36 588	37 354	36 873	31 288
Treasury funding - roll forward	-	-	-	3 067
Net deferred tax liability	103	-	-	-
Subordinated bonds - principal	1 485	1 485	1 485	1 485
Subordinated bonds - accrued interest	74	52	52	53
Total liabilities	**44 777**	**44 221**	**40 994**	**38 166**
Share Capital	10 000	10 000	10 000	10 000
Reserves and accumulated losses	(215)	(1 990)	(1 592)	(785)
Total equity (capital and reserves)	**9 785**	**8 010**	**8 408**	**9 215**
Total liabilities and equity	**54 562**	**52 231**	**49 402**	**47 381**

** The split of net advances is an additional disclosure not required under IFRS. The split is based on the carrying values of the Good Book in African Bank (before the fair value accounting of the Good Book at the Transaction Effective Date) and is shown to allow better comparability.*

The accumulated losses are mostly driven by non-recurring items, being assumed irrecoverable VAT of ZAR215 million and a goodwill impairment of ZAR1.7 billion (see section 4.7.2.2 below). VAT has been assumed to become due on the property and equipment, intangibles and goodwill assets being transferred. The recoverable portion of this VAT charge is assumed to be broadly in line with historic apportionment of VAT in African Bank, with the remaining irrecoverable amount recorded in reserves at the Transaction Effective Date and recycled as a charge through the statement of profit or loss in the six month period ending on 30 September 2016. The total forecast equity is forecast to grow throughout FY17 and FY18. This improvement results from increased forecast profitability up to the end of FY18.

Total assets and liabilities reduce in FY17 and FY18 partially due to forecast movements in foreign currency debt and the cash held as natural hedge.

The first scheduled repayment of existing liabilities on the First Maturity Date leads to a further reduction in forecast Good Bank cash and a net reduction in liabilities in FY18.

It is an important structural element of the African Bank Restructuring to deliver a Good Bank that has a reasonable prospect of achieving the CET Target. Common Equity Tier 1 Capital is forecast as follows: as at 30 September 2016: 27.2%, as at the end of FY17: 27.3%, and as at the end of FY18: 28.8%. Refer to section 4.4.13 for further commentary in this regard. Please also refer to section 4.4.2 which comments on the fair value assumption on New Debt Instruments.

4.7.2.2 Good Bank forecast statement of profit or loss until FY18

ABRIDGED STATEMENT OF PROFIT OR LOSS FOR GOOD BANK FOR PERIODS ENDING 30 SEPTEMBER

ZAR million	**Forecast 6 months FY16**	**Forecast 12 months FY17**	**Forecast 12 months FY18**
Interest income on advances	2 095	5 292	5 764
Non-interest income	409	1 243	1 715
Income from operations	**2 504**	**6 535**	**7 479**
Credit impairment charge	(161)	(1 342)	(2 130)
Claims Recovered from Stangen / cell captive	12	117	227
Risk-adjusted income	**2 355**	**5 310**	**5 576**
Amortisation of intangibles and impairment of goodwill	(1 732)	(17)	(17)
Other interest income	573	1 200	1 221
Interest expense	(1 607)	(3 519)	(3 218)
Operating costs	(1 148)	(2 314)	(2 301)
Foreign exchange losses	(184)	-	(34)
Indirect taxation: VAT	(269)	(109)	(108)
Operating (loss) / profit before taxation	**(2 012)**	**551**	**1 119**
Deferred tax	123	90	(25)
Direct taxation: current tax	(101)	(243)	(287)
(Loss) / profit for the period / year	**(1 990)**	**398**	**807**

Good Bank is forecast to make a loss of ZAR2.0 billion in the 6 month period ending on 30 September 2016, which is attributable to non-recurring items being the assumed amount of irrecoverable VAT (ZAR215 million) and the impairment of goodwill (ZAR1.7 billion). Thereafter performance is anticipated to improve, with profits after tax of ZAR398 million forecast in FY17 and ZAR807 million forecast in FY18.

The underlying performance of Good Bank is forecast to improve significantly over the Base Case Period, largely as a result of the performance of the book. This benefit reflects the anticipated positive outcome of the revised credit policies that have been implemented since Curatorship as new loans become a greater proportion of the loan advances book due to increased sales volumes included in the Base Case Forecasts. African Bank's recent volumes of monthly disbursements have exceeded the volumes previously forecast, and the Base Case Forecasts have been updated accordingly. In addition, it is forecast that the Repo Rate will increase during the Base Case Period (please see details in Annexure A5) and this results in the forecast of increased interest income on cash balances during the period.

It should also be noted that under the Base Case Forecasts, Good Bank retains substantial cash holdings during the Base Case Period. Such holdings, if retained, have a performance drag, since the return on such cash holdings is less than the interest accrued on the funding liabilities. It is anticipated that management will continue to develop the business plan for Good Bank which may deploy some of this cash holding into more profitable lending activities, in co-ordination with the board of the Good Bank and New HoldCo.

For more information on the preparation of the Good Bank Base Case Forecasts, please refer to Annexure A5.

4.8 Conclusion

Although the economic climate in South Africa remains challenging, the Base Case Forecasts (subject to the various disclosed assumptions) indicate that Good Bank is reasonably positioned to become a viable and profitable bank within two and a half years of the Transaction Effective Date. The strong cash position of Good Bank in conjunction with a wide range of credit scoring, provisioning, operational, and risk improvements that have been implemented since Curatorship results in a Good Bank Balance Sheet that demonstrates a reasonable prospect of Good Bank achieving the CET Target based on the assumptions set out in section 4.6 above, read with Annexure A5.

5. RESIDUAL BANK

Following implementation of the African Bank Restructuring, Residual Bank will retain the Residual Book and some other assets (including some intra-group receivables within the legacy African Bank group). Residual Bank will also issue Stub Instruments to those Senior Funders, Subordinated Funders and Other Senior Creditors (if any) whose Existing Debt Instruments have been exchanged in terms of the Exchange Offers or by Extraordinary Resolution (see sections 3.3 and 3.4 above for a detailed explanation of the Exchange Offers).

Residual Bank will not advance further loans and its sole purpose will be to collect all receivables due to it, and to use its collections (net of operating expenses): (i) to repay the SARB Transaction Loan; (ii) to repay draws (if any) made against the SARB Indemnity Facility from time to time. Draws will only be required to the extent that any claims are made in terms of the Good Bank Indemnity in circumstances where Residual Bank's own collected cash is insufficient to discharge the claim; and (iii) to create the Indemnity Reserve.

Any potential further net collections (over and above the amount required to settle amounts due to SARB and to establish the Indemnity Reserve), or amounts released from the Indemnity Reserve (if any), will be distributed to the other creditors of Residual Bank in such amounts and at such time as the Curator deems fit, in accordance with their ranking (see section 3.6 above).

Based on the information available to the Curator as at the date of this Offer Information Memorandum, the assumptions set out in this section 5 and the terms of the Good Bank Indemnity, the Residual Run-Off Analysis in section 5.4 below reflects: (i) a reasonable prospect that the SARB Transaction Loan (plus interest) will be repaid and that the Indemnity Reserve will be fully established; (ii) a reasonable prospect of a portion of the claims of unsubordinated creditors of Residual Bank being paid if no claim is made under the Good Bank Indemnity and no further claims are proven against Residual Bank; (iii) no reasonable prospect of any distribution to unsubordinated creditors if the Good Bank Indemnity is called in full; and (iv) no reasonable prospect of any amount being distributed to subordinated creditors of Residual Bank (including the holders of Subordinated Stub Instruments and any Existing Subordinated Debt Instruments remaining in Residual Bank).

This section 5 contains the following information:

- a brief overview of Residual Bank, including detail about its assets and liabilities on and immediately after the Transaction Effective Date. A projection of the anticipated assets and liabilities of Residual Bank as at 1 April 2016 is included in section 5.1 below;

- detail about the projected operating and run-off costs and expenses of Residual Bank, including an explanation of the proposed fee structure in terms of which Good Bank will be remunerated for the collection and administration of the Residual Book (see section 5.2 below);

- detail about the position of SARB as a secured creditor of Residual Bank, highlighting the nature and impact of the Indemnity Reserve in its current proposed form on the Residual Run-Off Analysis (see section 5.3 below); and

- the Residual Run-Off Analysis (being the projected cash flow from the run-off of Residual Bank), including the assumptions that have been used to project potential recoveries for creditors in Residual Bank (see section 5.4 below).

Assumptions have been categorised, as appropriate, as follows and presented in brackets where relevant:

- IC – Inside management’s control, being those assumptions in respect of which management can exercise some level of influence;

- OC –– Outside management’s control, being those assumptions that are exclusively outside of management’s influence; and

- T – Assumptions driven by the African Bank Restructuring and therefore outside management's influence.

Assumptions are based on management expectations relating to scenarios of future events and the actions management expects to be taken in such scenarios, but are hypothetical in nature given the circumstances.

5.1 Overview of Residual Bank

5.1.1 *Residual Bank: List of projected assets and liabilities as at 1 April 2016*

In preparing the projected list of Residual Bank assets and liabilities as at 1 April 2016:

- the African Bank balance sheet has been forecast forward from 30 September 2015 to 31 March 2016 (see Annexure A4), and a Transaction Effective Date of 1 April 2016 has been assumed. The African Bank balance sheet has been split into a Good Bank Balance Sheet (see section 4.7.1 above) and a Residual Bank balance sheet, and a SARB Transaction Loan of ZAR3 279 million is assumed (see section 5.1.3.3 below);

- it is assumed that 100% of the Existing Debt Instruments are exchanged and that Stub Instruments are issued to all Senior Funders and Subordinated Funders (OC).

The calculation of the projected amount of the SARB Transaction Loan is discussed in more detail in section 5.1.3.3 below.

The assets and liabilities of Residual Bank on and immediately after the Transaction Effective Date are projected in the table on the next page.

ZAR million	Residual Bank assets and liabilities remaining after transfer of the Good Bank Business and settlement of Exchange Offers (see section 4.7.1 and Annexure A)	Residual Bank after Transaction Effective Date expenses and obligations have been paid	Comments
Assets			
Cash	7 996	500	Cash, supplemented by the SARB Transaction Loan if necessary, is used to settle the Coupon Service Payment, the Senior Cash Payment, the Subordinated Cash Payment and some other Transaction Effective Date liabilities
Net advances	4 853	4 853	Residual Book
Intra group receivables	-	-	Notably from ABIL
Liabilities			
Other liabilities	(419)	-	Mainly VAT on the sale of goodwill and other intangibles, paid shortly after Transaction Effective Date
Bonds and other long term funding	(15 724)	(5 540)	Coupon Service Payment of ZAR5.5 billion and Senior Cash Payment of ZAR4.7 billion; paid on or shortly after Transaction Effective Date
Subordinated Loans	(3 828)	(3 656)	Subordinated Cash Payment of ZAR165 million plus interest of ZAR7 million accrued post 1 December 2015
SARB Transaction Loan		(3 279)	
Net liabilities	(7 122)	(7 122)	

5.1.2 *Residual Bank assets*

5.1.2.1 The Residual Book

The Residual Book is essentially the entire loan portfolio of African Bank, other than the Good Book that will be transferred to Good Bank on the Transaction Effective Date. The salient features of the Residual Book projected as at 31 March 2016 are reflected in the table on the next page:

Gross value of loan assets in Residual Book*	ZAR11 158 million
Impairments	ZAR6 305 million
Provision coverage	57%
Net value of loan assets in Residual Book	ZAR4 853 million

**Excluding gross value of the written-off book*

The Residual Book consists of all African Bank loans that are not included in the Good Book as Selected Loans or New Loans (please see section 4.4.1.2 above).

Since Residual Bank will not have a banking licence after the Transaction Effective Date, all active credit card accounts are included in the Good Book and will be transferred to Good Bank even though they may not meet the revised borrower criteria in terms of the new more conservative lending model.

The improved provisioning policy described in Annexure A5 has been applied to project the impairments and net value of the Residual Book in the table above.

5.1.2.2 Intra-group receivables

The table below reflects the forecast intra-group receivables as at 31 March 2016:

ZAR million	**Gross Balance**	**Provision**	**Net Balance**	**Assumed Recovery**	**Assumed Timing**
African Bank Investments Ltd	265	(265)	-	133	Apr-18
Ellerines Furnishers (Pty) Ltd	56	(56)	-	11	Dec-16
Ellerines Holdings Ltd	1 365	(1 365)	-	258	Dec-16
Gilt Edged Management Services (Pty) Ltd	23	(23)	-	-	N/A
Total	1 709	(1 709)	-	402	

(a) ABIL

To date, 50 cents in the Rand have been paid to African Bank by the business rescue practitioners of ABIL. The Residual Run-Off Analysis is based on the assumption that only 50% of the remainder will be recovered but the Curator currently expects full repayment (unless material unexpected challenges are faced by the business rescue practitioner) (OC).

(b) Ellerine Furnishers

Ellerine Furnishers is currently in business rescue. It is assumed that an amount of ZAR11 million will be recovered from Ellerine Furnishers (OC).

(c) EHL

EHL is in business rescue and the ZAR1.4 billion intercompany loan advanced by African Bank has been written off in the African Bank balance sheet.

The most recent estimated recovery realisation to be made by the business rescue practitioner of EHL is ZAR570 million. A payment of ZAR127 million has been received to date. A level of risk is recognised on the remaining recovery and a 10% discount has been applied. Based on this estimate, and the fact that the ZAR1.4 billion constitutes approximately 75% of EHL's debt, an estimated amount of ZAR258 million is assumed to be recoverable from EHL (570 x 90% x 75% less dividend of ZAR127 million) (OC).

(d) GEMS

GEMS is a dormant Subsidiary of ABIL with no assets and there is no prospect of recovery of this intra-group claim (OC).

5.1.2.3 Potential tax recoveries

African Bank has open tax matters with SARS relating to the deductibility of impairment provisions on the Bank's advances book and the application of SARS' directive regarding the treatment of doubtful debts by banks. African Bank is of the view that the current tax asset cannot be recognised because of the uncertainty around the resolution of this matter as negotiations with SARS remain ongoing.

The Bank continues to pursue this matter, bur for purposes of the Residual Run-Off Analysis it is assumed that there will be no recoveries from SARS (OC). The ultimate amount recovered (if any) may vary and will depend on the outcome of negotiations.

5.1.2.4 Cash

An initial Operating Float of ZAR500 million will be established as part of the draw-down against the SARB Transaction Loan (see section 5.1.3.3 below), but this amount may be increased or decreased from time to time in line with actual operating and run-off costs and expenses incurred and/or expected (refer to the Distribution Waterfall in section 3.6) (IC).

5.1.3 *Residual Bank liabilities*

5.1.3.1 Senior Stub Instruments and Subordinated Stub Instruments

Existing Debt Instruments that are exchanged in terms of the Exchange Offers will be cancelled and replaced by Stub Instruments (see sections 3.3.6 and 3.4.8 above). It is assumed for purposes of the Residual Run-Off Analysis that 100% of the Existing Senior Debt Instruments and Existing Subordinated Debt Instruments will be exchanged in terms of the Exchange Offers (OC).

5.1.3.2 Operating and run-off costs and expenses

Residual Bank will incur day-to-day costs and expenses to collect receivables accruing to it and to conduct general run-off and administration activities. While the projected list of assets and liabilities in section 5.1.1 above does not include an amount for such costs and expenses (as they will be incurred over time), it does include an assumed initial Operating Float of ZAR500 million to cover initial costs and expenses (IC). The Operating Float will be topped-up in priority to all other distributions to such level as the Curator deems appropriate from time to time. More detail about the nature of these projected costs and expenses is included in section 5.2 below.

5.1.3.3 SARB Transaction Loan

The list of assets and liabilities in section 5.1.1 projects a SARB Transaction Loan of ZAR3.279 billion as at 1 April 2016. Based on current projections, it is anticipated that Residual Bank will have sufficient cash resources on the Transaction Effective Date to discharge the Top-Up Cash Amount that must be paid to Good Bank (see section 3.2.3 above) in full (T).

Residual Bank will however, to the extent that its remaining cash is insufficient, need to borrow funds in terms of the SARB Transaction Loan to (i) discharge the Coupon Service Payment, the Senior Cash Payment and the Subordinated Cash Payment; (ii) establish the Operating Float; (iii) discharge Other Senior Claims that must be settled in cash (see section 3.3.5.3 above) as well as other Transaction Effective Date expenses and obligations; and (iv) to discharge any professional services fees incurred during Curatorship, but not yet paid (if any).

The table below reflects the manner in which the projected SARB Transaction Loan amount has been calculated:

	ZAR million
Projected opening cash balance (see Good Bank Balance Sheet in section 4.7.1 above)	7 996
Coupon Service Payment (calculated as at 1 April 2016), on the assumption that 100% of the Serviced Instruments are exchanged	(5 494)
Senior Cash Payment and Subordinated Cash Payment	(4 862)
Other creditors, mainly VAT arising from the African Bank Restructuring and incurred under Curatorship, not yet paid	(419)
Operating Float	(500)
Opening SARB Transaction Loan requirement	3 279

The Curator will provide a market update as to the actual opening balance sheet of Residual Bank subsequent to the Transaction Effective Date.

5.1.3.4 Contingent liabilities in terms of the Good Bank

The Good Bank Indemnity will be for a maximum amount of ZAR3 billion and will apply for an eight year period. The impact of the Good Bank Indemnity and the Indemnity Reserve on the Residual Run-Off Analysis is discussed in more detail in section 5.3.2 below.

5.1.4 *Management of Residual Bank*

Residual Bank will not retain any employees since all employment contracts in existence in African Bank will transfer to Good Bank on the Transaction Effective Date. It is currently anticipated that Residual Bank will remain under Curatorship (and therefore managed by the Curator) for at least an initial period following the Transaction Effective Date. It is not clear for how long Residual Bank will remain in Curatorship and/or whether it will be placed in liquidation (OC).

The collection and administration of the Residual Book will be outsourced to Good Bank in return for the fees detailed in section 5.2.2 below.

A service level agreement between Good Bank and Residual Bank has been concluded. The Curator has considered alternative service providers to administer and collect the Residual Book, but it appears unlikely that any third party supplier will be able to provide the seamless outsourcing of collections that will be achieved if Good Bank is appointed. The Curator sought independent advice to ensure that Residual Bank pays a market related service fee for the service.

5.1.5 *Banking licence and scope of business*

It is anticipated that the banking licence of Residual Bank will be cancelled with effect from the Transaction Effective Date (T). Residual Bank will cease to advance loans, to take deposits and/or to conduct any banking or commercial trading activities after the transfer of the Good Bank Business. Residual Bank's activities will be limited to: (i) implementation of the Exchange Offers and the wider African Bank Restructuring; (ii) collection of the Residual Book (which will be outsourced to Good Bank) and other receivables; (iii) payment of liabilities in accordance with the Distribution Waterfall; and (iv) any activities reasonably ancillary to, and in support of, the main activities listed in (i) to (iii).

5.2 Projected operating and run-off costs and expenses

The actual operating and run-off expenses of Residual Bank may be different to what is projected in the Residual Run-Off Analysis and accordingly the Curator has full discretion to increase or decrease the Operating Float from time to time in line with actual current and anticipated expenditure from time to time.

5.2.1 *Curator's and professional services fees*

Although the majority of the Curator's duties will have been completed upon implementation of the African Bank Restructuring, it is currently anticipated that the Curatorship will continue in order to supervise the collection of the Residual Book (IC). The Curator is likely to require some legal-, operational- and other professional support during the run-off process. The Curator's fees as well as the fees of professional advisors appointed by him will depend on actual time spent to provide the relevant service, but for purposes of the Residual Run-Off Analysis, an amount of 1% of gross collections has been assumed (IC). This estimate is based on the assumption that neither the Residual Bank nor the Curator himself will be involved in any material litigation process (OC). If substantial amounts of time must be spent to institute or to defend any claim, then fees are likely to increase.

5.2.2 *Collection fees payable to Good Bank*

The main operating expense of Residual Bank will be the fees payable to Good Bank (or any other service provider appointed in future) for the collection and administration of the Residual Book (see section 5.1.4 above).

To negotiate the fee structure for the collection of the Residual Book, an in-depth exercise was undertaken to define the costs applicable to the management and collection of the Residual Book.

Although various other suppliers have expressed an interest to collect and administer the Residual Book, the Curator is of the view that none of these suppliers will be able to provide the seamless outsourcing of collections that will be achieved if Good Bank is appointed. The risk of a drop in the collections rates and a disruption in the management and servicing of the Residual Book far outweighed the benefits offered by any of the third party collectors that have expressed an interest to render the service. The fact that Good Bank will acquire all the existing collection systems and functions of African Bank means that the risk of a disruption of collections is lower compared to alternative suppliers.

The Curator has sought independent expert advice to assist him in: (i) ensuring that the commercial agreement with Good Bank reflects a fair market rate; and (ii) monitoring the performance of Good Bank on an ongoing basis to ensure that market best practice is applied in the collection of the Residual Book.

Good Bank has been appointed for an initial minimum period of 1 year. Thereafter the agreement may be terminated by either party by giving 8 months' prior written notice (T).

The fee structure consists of both a fixed and variable component. Both have been determined by assessing African Bank’s costs in detail, and identifying what costs are applicable to the managing, servicing and collection of the Residual Book.

The variable charge that will be levied by Good Bank is based on a percentage of the amount collected, with a distinction being made between soft collections and hard collections (i.e. when a legal process is pursued). The variable charge ensures that the team in Good Bank responsible for managing the collections on the Residual Book is incentivised to collect as much as possible, and no part of this portion of the fee will have a fixed component. The costs that this fee will be required to cover will include directly attributable collections costs such as debit order payments, call centre and legal collection services, as well as salaries, telephony and other incidental costs that will be incurred in the collections of this portfolio. The fee structure proposed varies depending on the delinquency of the portfolio and recognises the fact that as loans migrate into a higher delinquency status as the cost of collections increases.

The fixed cost component of the charge relates to servicing and administration costs, such as customer service, IT, finance, risk, treasury, cash flow and back office management. An absorption based costing approach (i.e. identifying appropriate cost drivers and a unit cost per cost driver) was used to determine a fixed cost per account. This cost will be charged based on all customers (unique IDs) that have an outstanding balance on their loan accounts at the end of every month.

Based on the projected cash flows that will be derived from the Residual Book, the projected number of accounts on book on a monthly basis and calculating the applicable fees that are expected to be derived from this portfolio, it is projected that the cost of collections to be charged by Good Bank to Residual Bank will be ZAR339 million in the period ending on 30 September 2016 (six months), ZAR651 million in FY17 and ZAR505 million in FY18 (OC).

5.3 SARB as a secured creditor of Residual Bank

5.3.1 *SARB Transaction Loan*

It is currently anticipated that African Bank will need to draw approximately ZAR3.279 billion from the SARB Transaction Loan on the Transaction Effective Date (please see section 5.1.3.3 above for further detail).

The commercial terms applicable to the SARB Transaction Loan are summarised in section 3.5 above.

5.3.2 *SARB Indemnity Facility and the Indemnity Reserve*

On the Transaction Effective Date, Residual Bank will issue the Good Bank Indemnity to Good Bank and SARB will guarantee the payment obligations of Residual Bank ("**SARB Guarantee**") (see section 5.1.3.4 above).

To fund the ongoing potential exposure of Residual Bank in terms of the Good Bank Indemnity, SARB will make the SARB Indemnity Facility available to Residual Bank. If no indemnity claims are made by Good Bank, then the SARB Indemnity Facility will remain unutilised and the only amount owing to SARB will be the amount lent to Residual Bank under the SARB Transaction Loan. The commercial terms applicable to loans (if any) advanced in terms of the SARB Indemnity Facility are summarised in section 3.5 above. The Residual Run-Off Analysis assumes that no amount is drawn against the SARB Indemnity Facility as at the end of FY19 and that the only costs payable to SARB will be a commitment fee of 50 basis points per annum on the amount by which the available but undrawn portion of the SARB Indemnity Facility exceeds the amount in the Indemnity Reserve. Due to the eight year duration of the Good Bank Indemnity, the Indemnity Reserve will need to be appropriately invested.

In terms of the SARB loan facility and security agreements, the Curator will be obliged to accumulate excess cash collections in an Indemnity Reserve pledged in favour of SARB until the total cash in the Indemnity Reserve is equal to the maximum amount that may still become payable to Good Bank in terms of the Good Bank Indemnity (i.e. ZAR3 billion if no claims have been paid to Good Bank).

The Indemnity Reserve cannot be released, reduced or applied for any purpose other than to satisfy claims under the Good Bank Indemnity, unless the prior consent of SARB has been obtained.

5.3.3 *SARB Security*

All of the assets of Residual Bank will be ceded to SARB as security on or about the Transaction Effective Date to secure: (i) the repayment of the SARB Transaction Loan; (ii) advances (if any) made in terms of the SARB Indemnity Facility; and (iii) any payments made by SARB in terms of the SARB Guarantee, in respect of which Residual Bank will be obliged to reimburse SARB.

The assets pledged to SARB will include the Residual Book, all bank accounts of Residual Bank from time to time, all cash balances and investment instruments, all personal rights and claims against third parties and all New Senior Debt Instruments (if any) delivered to Residual Bank and retained after implementation of the Exchange Offers. In the Residual Run-Off Analysis, it is assumed that all the Existing Senior Debt Instruments are exchanged so that Residual Bank will not retain any New Senior Debt Instruments (OC).

SARB will be the only secured creditor of Residual Bank and it will rank in priority to all other creditors in the Distribution Waterfall (please see section 3.6 above for further detail).

5.4 The Residual Run-Off Analysis and assumptions

5.4.1 *The Residual Run-Off Analysis*

The Residual Run-Off Analysis has been prepared based on the Collections Model and subject to the further assumptions and different overlays to the model explained in section 5.4.2 below. The table below reflects both the modelled outcome and the outcome if a 15% discount is applied to the gross modelled collections (note that 15% is used purely for illustrative purposes and that in the final outcome the discount is slightly higher than 15% due to the fixed nature of certain costs):

ZAR million	Base case	15% Discount
Forecast opening cash balance at completion	7 996	7 996
Cash received from SARB Transaction Loan	3 279	3 279
Coupon Service Payment	(5 494)	(5 494)
Trading liabilities	(419)	(419)
Senior Cash Payment and Subordinated Cash Payment	(4 862)	(4 862)
Cash float at Plan implementation	500	500
Residual Book collections (net of costs)	5 374	4 434
Interest payable on SARB Transaction Loan	(197)	(256)
Commitment fee***	(42)	(49)
Interest receivable on cash balances	296	203
Intercompany recoveries	402	402
Tax recoveries	-	-
Professional fees	(54)	(44)
Net cash recovered in Residual Bank	6 279	5 190
Repayment of SARB Transaction Loan	(3 279)	(3 279)
Residual Bank surplus before Good Bank Indemnity	3 000	1 911
Good Bank Indemnity / Indemnity Reserve	(3 000)	(3 000)
Residual Bank deficit after Indemnity	(0)	(1 089)

Outstanding senior debt (projected at September 2019)*	(7 813)	(7 813)
Senior debt recovery (Good Bank Indemnity call in full / Indemnity Reserve established) %	0%	0%
Senior debt recovery (No call on Good Bank Indemnity / Indemnity Reserve released) %	38%	24%
Outstanding subordinated debt (projected at September 2019)**	(5,598)	(5,598)
Subordinated debt recovery (no call on Good Bank Indemnity / Indemnity Reserve released) (%)	0%	0%

** Includes interest to 30 September 2019 at 300bps above JIBAR per annum (OC).*
*** Includes interest to 30 September 2019 at 500bps above JIBAR per annum (OC)*
****Commitment fee - 0.5% per annum commitment fee, note this does not assume guarantee has been called. If called, amounts advanced under the guarantee would be charged at a higher rate (OC)*

In the base case scenario:

- if the Good Bank Indemnity is called in full, the Indemnity Reserve is only just established and thus there will not be a material return to unsubordinated creditors. If a call is made against the Good Bank Indemnity which exceeds the level of cash accumulated in the Indemnity Reserve at the relevant time, then interest costs in Residual Bank will increase (draws against the SARB Indemnity Facility accrue interest at JIBAR plus 300 basis points). In other words, the timing of claims in terms of the Good Bank Indemnity may have an impact on the net proceeds available for distribution (OC); and

- if no call is made under the Good Bank Indemnity, then it is likely that a material sum would be available for distribution to unsubordinated creditors (ZAR3.0 billion in the above base case scenario) (OC).

In the 15% discount scenario, the Indemnity Reserve will not be established in full and it is not reasonably anticipated that any distribution will be made to any creditors (other than SARB) (OC).

It is not anticipated that subordinated creditors will receive any distribution (OC).

The outcome of the Residual Run-Off Analysis may be different if any of the assumptions to the Collections Model (see Annexure B) or set out in section 5.4.2 below are incorrect.

The Curator is responsible for the Residual Run-Off Analysis, including the assumptions on which it is based, and for the financial information from which it has been prepared. This responsibility arises in compliance with the JSE Listings Requirements of the JSE.

Please note that although the Curator has prepared the Residual Run-Off Analysis in good faith, forward looking projections are inherently subjective, uncertain and unpredictable in nature. If the assumptions used to prepare the analysis are incorrect in any material respect, the actual outcome may be worse or better than the analysis included in this Offer Information Memorandum. You should form your own view and obtain your own advice in respect of the potential future performance of Residual Bank.

5.4.2 *Assumptions and Collections Model*

The Residual Run-Off Analysis is subject to the following key assumptions:

- the amount drawn against the SARB Transaction Loan will be ZAR3.279 billion (please see section 5.1.3.3 above) (T) and (OC);

- the Good Bank Indemnity will be for an amount of ZAR3 billion and will endure until the eighth anniversary of the Transaction Effective Date (T);

- 100% of the Existing Debt Instruments are settled and exchanged and the Senior Funders are the only unsubordinated creditors of Residual Bank (other than SARB and operating and run-off costs and expenses) (OC);

- once any loan in the Residual Book reaches a CD Status of CD1 or worse, any insurance policy in place with Stangen will be cancelled so that no premiums will be collected for and on behalf of Stangen (IC);

- an amount of ZAR402 million is recovered in respect of the intra-group receivables discussed in section 5.1.2.2 above (OC);

- the accumulated tax loss in African Bank is sufficient to shield any taxable income / reversing temporary differences of Residual Bank for all subsequent tax periods (OC);
- the remaining Residual Book as at 30 September 2019 is disposed of at a price determined by applying a discounted cash rate of 25% to the remaining net cash flows (IC);
- the actual timing and amount of distributions to unsubordinated creditors have not been modelled. The Curator will endeavour to return monies to creditors in an efficient and timely manner if monies become available in accordance with the Distribution Waterfall (OC); and
- the Residual Run-Off Analysis presents a modelled outcome up until 30 September 2019. In light of the fact that the Indemnity Reserve must be retained beyond this date, Residual Bank will continue to earn interest on the Indemnity Reserve after the projected analysis period (IC).

To monitor the performance of the Residual Book and to project the eventual cash recoveries, a run-off model of the Residual Book has been developed ("**Collections Model**").

Cash flows are projected until loans repay, settle early or complete a process of legal collections. This model draws on loan behaviour, and features observed actual balances, up to 28 February 2015. From March 2015, modelled performance is tested against actual loan behaviour.

The projections are built using roll rate matrices that project the probability of an account moving between statuses such as different levels of arrears, early settlement or default. These probabilities are based on the historic movements of homogenous groups of accounts between these statuses. Homogenous groups of accounts are defined as accounts with similar risk profiles (application scores), terms and months on book. This projection was built using 154 million lines of data that show the monthly account status and payments made.

For accounts that are assumed to move into default, a cash flow projection is produced for the remaining period over which collections will occur. This period is assumed to be 7 years based on the level of recoveries observed for historically defaulted accounts (OC). The default recovery cash flow pattern is determined for homogenous groups of accounts based on historic cash flows for the market segment or sector and the term of the loans. The time already spent in default is also taken into account for loans that are assumed to be in default at the start of the projection.

The Collections Model does not adjust for seasonality and as such if actual performance is in line with the model prediction some underperformance in December / January of each year, which is made up across the rest of the year, should be expected (OC).

The projection between statuses and default cash flows rely on the following assumptions:

- that risk profile, term and months on book for roll rates and market segment, term and time in default, all fully describe the risk of the Residual Book and there are no other underlying risk drivers that will change over time;
- the historic experience of each homogenous group of accounts are reflective of the future performance of these accounts; and

- there is no allowance for macro-economic stress or deterioration in the unsecured credit environment.

Projections were performed by estimating all cash received directly from the client and then adding estimated insurance claims receivable from Stangen. Thereafter, the premiums that Residual Bank will have to pay to Stangen for credit life insurance have been deducted.

5.5 Conclusion

Based on the current information available to the Curator (including the terms of the Good Bank Indemnity), the Curator believes that there is a reasonable prospect that a portion of the claims of unsubordinated creditors of Residual Bank will be paid if no claim is made under the Good Bank Indemnity and no further claims are proven against Residual Bank.

The amount of any potential distribution is dependent upon the collection performance of the Residual Book and the timing and level of claims made in terms of the Good Bank Indemnity.

If the Good Bank Indemnity is called in full, then no distribution to unsubordinated creditors is reasonably anticipated.

It is not anticipated that subordinated creditors will receive a distribution.

Annexure A

Financial Information

This is Annexure A to the Offer Information Memorandum.

Financial information included in this Annexure A comprises the following:

Historical financial information

Annexure	Description
Annexure A1 African Bank annual financial information – 30 September 2015 Page 3	Comprises extracts from the African Bank audited annual statutory financial statements of the following: - Statement of financial position - Statement of profit or loss - Statement of other comprehensive income - Statement of changes in equity - Statement of cash flows The full set of annual financial statements, including the notes thereto, is available at www.africanbank.co.za or at https://www.africanbank.co.za/about-us/investors
Annexure A2 Good Bank legal entity dormant historical financial information Page 6	Comprises the Good Bank legal entity dormant historical audited financial statements as at 30 September 2015

Pro forma financial information of Good Bank

Annexure	Description	Status
Annexure A3 Good Bank pro forma financial information for the year ended 30 September 2015 Page 17	A pro forma statement of financial position and a statement of profit or loss are presented as at an assumed Transaction Effective Date of: - 30 September 2015 for purposes of preparing the statement of financial position - 1 October 2014 for purposes of preparing the statement of profit or loss	Pro forma financial information is based on the Restructuring. The Reporting Accountant's report on this pro forma financial information is contained in Annexure A6.

<u>Forecast financial information for African Bank and Good Bank</u>

Annexure	Description	Status
Annexure A4 African Bank Page 24	Forecast financial information for African Bank for the six months ending 31 March 2016: - Abridged statement of financial position - Abridged statement of profit or loss	Forecast financial information is based on the Restructuring. The Reporting Accountant's reports on this forecast financial information are contained in Annexure A7 and Annexure A8.
Annexure A5 Good Bank Page 32	Forecast financial information for the Good Bank from 1 April 2016 to 30 September 2018, including the formation of the Good Bank Balance Sheet as at an assumed Transaction Effective Date of 1 April 2016: - Abridged statements of financial position - Abridged statements of profit or loss - Abridged cash flow statements	

<u>Reporting accountant's reports</u>

Annexure	Description
Annexure A6 Reporting accountant's report on pro-forma financial information Page 58	Reporting accountant's report on pro-forma financial information included in Annexure A3.
Annexure A7 Reporting accountant's report on forecast financial information of African Bank Page 60	Reporting accountant's report on forecast financial information included in Annexure A4.
Annexure A8 Reporting accountant's reports on forecast financial information of Good Bank Page 63	Reporting accountant's report on forecast financial information included in Annexure A5.
Annexure A9 Reporting accountant's reports on projected financial information of African Bank Page 66	Reporting accountant's report on projected financial information included in Annexure B (African Bank liquidation analysis) and section 5 (Residual Run-Off Analysis) of the Offer Information Memorandum.

Annexure A1

African Bank annual financial information
30 September 2015

EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

The information contained in this annexure has not been reviewed by or reported on by the company's auditors, however, it has been extracted from audited annual statutory financial statements.

AFRICAN BANK LIMITED (in Curatorship)
ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
at 30 September 2015

ZAR million	2015	2014
Assets		
Short-term deposits and cash	6 294	3 582
Assets classified as held for sale	37 436	-
Statutory assets	-	3 042
Derivatives and other assets	-	3 048
Net advances	6 767	38 739
Deferred tax asset	-	-
Loan to affiliated companies	182	529
Property and equipment	-	455
Intangible assets	-	107
Total assets	**50 679**	**49 502**
Liabilities and equity		
Short-term funding	21 326	6 764
Liabilities associated with assets classified as held for sale	4 453	-
Derivatives and other liabilities	101	1 010
Bonds and other long-term funding	26 524	36 436
Subordinated bonds, debentures and loans	4 569	4 436
Loan from affiliated companies	535	471
Total liabilities	**57 508**	**49 117**
Ordinary share capital	121	121
Ordinary share premium	14 283	14 283
Reserves and accumulated losses	(21 233)	(14 019)
Total equity (capital and reserves)	**(6 829)**	**385**
Total liabilities and equity	**50 679**	**49 502**

STATEMENT OF PROFIT OR LOSS
for the year ended 30 September 2015

ZAR million	2015	2014
Interest income on advances	8 720	11 727
Non-interest income	2 273	2 924
Income from operations	**10 993**	**14 651**
Credit impairment charge	(10 816)	(13 297)
Risk-adjusted income from operations	**177**	**1 354**
Other interest income	484	423
Interest expense and similar charges	(4 601)	(4 688)
Operating costs	(2 698)	(2 834)
Indirect taxation: VAT	(59)	(40)
Loss from operations	**(6 697)**	**(5 785)**
Other (losses) / gains	(185)	47
Capital items	(330)	(1 403)
Loss before taxation	**(7 212)**	**(7 141)**
Direct taxation: current and deferred	-	(2 158)
Loss for the year	**(7 212)**	**(9 299)**

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 30 September 2015

ZAR million	2015	2014
Loss for the year	(7 212)	(9 299)
Other comprehensive income comprising items that are or may subsequently be reclassified to profit or loss:		
Movement in cash flow hedge reserve	-	(180)
Net change in fair value of available-for-sale financial assets	(2)	-
Other comprehensive loss for the year (net of tax)	**(2)**	**(180)**
Total comprehensive loss for the year	**(7 214)**	**(9 479)**

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2015

ZAR million	Ordinary share capital	Ordinary share premium	(Accumu-lated losses)	Available for sale reserve	Cash flow hedging reserve	Total
Balance at 30 September 2013 (restated)	121	8 833	(4 720)	-	180	4 414
Total comprehensive loss for the year	-	-	(9 299)	-	(180)	(9 479)
Ordinary shares issued	-	5 450	-	-	-	5 450
Balance at 30 September 2014	**121**	**14 283**	**(14 019)**	**-**	**-**	**385**
Total comprehensive loss for the year	**-**	-	(7 212)	(2)	-	(7 214)
Balance at 30 September 2015	**121**	**14 283**	**(21 231)**	**(2)**	**-**	**(6 829)**

STATEMENT OF CASH FLOWS
for the year ended 30 September 2015

ZAR million	2015	2014
Cash generated from operations	9 354	10 005
Cash received from lending activities and cash reserves	11 432	15 292
Recoveries on advances previously written off	528	474
Cash paid to clients, suppliers of funding, employees and agents	(2 606)	(5 761)
Decrease / (increase) in gross advances	509	(7 509)
(Increase) / decrease in statutory assets	(417)	804
(Decrease) / increase in customer deposits	(5)	20
Indirect and direct taxation paid	(59)	(43)
Cash inflow / (outflow) from operating activities	**9 382**	**3 277**
Cash outflow from investing activities	(143)	(141)
Acquisition of property and equipment (to maintain operations)	(129)	(89)
Acquisition of intangible assets (to maintain operations)	(31)	(26)
Net movement in other investing activities	17	(26)
Cash inflow / (outflow) from financing activities	1 705	(2 584)
Cash inflow / (outflow) from funding activities	1 705	(8 034)
Ordinary shareholder’s payments and transactions	-	5 450
Increase in cash and cash equivalents	**10 944**	**552**
Cash and cash equivalents of disposal group classified as held for sale	**(8 232)**	**-**
Cash and cash equivalents at the beginning of the year	**3 582**	**3 030**
Cash and cash equivalents at the end of the year	**6 294**	**3 582**

Annexure A2

Good Bank legal entity dormant historical financial information

K2014176899 (SOUTH AFRICA) LIMITED

(Registration number: 2014/176899/06)

FINANCIAL STATEMENTS

30 September 2015

These financial statements were prepared under the supervision of the Chief Financial Officer, G Raubenheimer CA (SA), and have been audited in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

K2014176899 (SOUTH AFRICA) LIMITED

FINANCIAL STATEMENTS
30 September 2015

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K2014176899 (SOUTH AFRICA) LIMITED

DIRECTOR'S RESPONSIBILITY STATEMENT
for the period ended 30 September 2015

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 30 September 2015, the statement of changes in equity and the statement of cash flows for the period 9 September 2014 (date of incorporation) to 30 September 2015, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements set out on pages 7 to 11 were approved by the board of directors and signed on its behalf on 4 November 2015 by:

B Riley **Director**	**G Raubenheimer** **Director**

REPORT TO THE SHAREHOLDER OF K2014176899 (SOUTH AFRICA) LIMITED

We have audited the financial statements of K2014176899 (South Africa) Limited set out on pages 7 to 11, which comprise the statement of financial position as at 30 September 2015, and the statement of changes in equity and statement of cash flows for the period 9 September 2014 (date of incorporation) to 30 September 2015, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of K2014176899 (South Africa) Limited as at 30 September 2015, and its financial performance and its cash flows for the period 9 September 2014 to 30 September 2015 in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the period ended 30 September 2015, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the preparers. Based on reading this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on this report.

PricewaterhouseCoopers Inc.
Director: Thomas Magill
Registered Auditor
Sunninghill
4 November 2015

K2014176899 (SOUTH AFRICA) LIMITED

DIRECTORS' REPORT

30 September 2015

The directors present their report to the shareholder for the period ended 30 September 2015.

General review

K2014176899 (South Africa) Limited was incorporated in South Africa on 9 September 2014. The company was dormant during the 2015 financial.

Share capital

The company is authorised to issue the following number of shares:

- 1 000 ordinary no par value shares, which shall have one voting right per share and shall be entitled to receive the net assets of the company upon its liquidation;
- 100 000 000 unclassified no par value shares without any specified associated preferences, rights, limitations or other terms in respect of which the board must determine the associated preferences, rights, limitations or other terms prior to issuing such shares.

As at 30 September 2015 the company had only one ordinary share in issue.

Directors

In terms of Memorandum of Incorporation, the board of directors of the company comprises of at least three directors.

Company's board of directors:

Name	**Designation**	**Date appointed**	**Date resigned**
Michael Mervyn Katz	Executive director	9 September 2014	24 June 2015
Lebusa Meso	Executive director	9 September 2014	24 June 2015
Doron Joffe	Executive director	9 September 2014	10 September 2015
Louis Leon von Zeuner	Non- executive chairman	26 June 2015	
Basani Maluleke	Non- executive director	28 July 2015	
Brian Riley	Executive director	24 June 2015	
Frans Johannes Christiaan Truter	Non- executive director	7 August 2015	
Gustav Raubenheimer	Executive director	3 July 2015	
Ignatius Simon Sehoole	Non- executive director	28 July 2015	
Louisa Stephens	Non- executive director	2 July 2015	
Sybille Liane McCloghrie	Non- executive director	28 July 2015	

Registered Office

The registered office of the company is at:
59-16th Road
Midrand
Gauteng
1685

Company Secretary

The company secretary had resigned before the signing of the financial statements and as such there was no company secretary appointed as at 30 September 2015. The directors are satisfied that requirements informing the company secretary's certificate have been executed and appropriate steps have been taken for the appointment of a successor company secretary.

Special resolutions

There were no special resolutions passed during the period under review.

Holding Company

The company's holding company is K2015219110 (South Africa) Limited.

Events subsequent to year end

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the company financial statements, which significantly affects the financial position at 30 September 2015 or the results of its operations or cash flows for the period then ended.

Directors' emoluments

No directors' emoluments were paid by the company during the reporting period.

Auditors

PricewaterhouseCoopers Incorporated is the appointed auditor of the company.

K2014176899 (SOUTH AFRICA) LIMITED

STATEMENT OF FINANCIAL POSITION

as at 30 September 2015

	Notes	2015
Current assets		
Cash and cash equivalents	2	1
Total assets		**1**
Capital and reserves		
Share capital	3	**1**
Total liabilities and equity		**1**

K2014176899 (SOUTH AFRICA) LIMITED

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 September 2015

	Notes	Share capital	Retained earnings	Total
Shares issued	3	1	-	1
Balance at 30 September 2015		**1**	**-**	**1**

K2014176899 (SOUTH AFRICA) LIMITED

STATEMENT OF CASH FLOWS
for the period ended 30 September 2015

	Notes	2015
Cash flows from operating activities		
Cash generated in operations		-
Net cash flow from operating activities		-
Cash flows from investing activities		-
Cash flows from funding activities	4	1
Net increase in cash and cash equivalents		**1**
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	2	**1**

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 September 2015

1. Significant accounting policies

1.1 Statement of compliance

The company financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, the AC 500 standards as issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa (Act 71 of 2008).

1.2 Basis of preparation

The company financial statements have been prepared in accordance with the going concern principle and using a historical cost basis, except where specifically indicated otherwise in the accounting policies.
The company financial statements are presented in South African rand.

There are no standards in issue but not yet effective which have a material impact on the company.

1.3 Assets and liabilities

An asset is a resource controlled by the company as a result of past events and from which future economic benefits are expected to flow to the company.

Assets are recognised if it is probable that future economic benefits will flow to the company and the asset has a cost or value that can be measured reliably.

A liability is a present obligation of the company arising from past events, the settlement of which is expected to result in an outflow, from the company's resources, embodying economic benefits.

Liabilities are recognised if it is probable that the settlement of the obligation will result in an outflow of resources embodying economic benefits and the settlement amount can be measured reliably.

1.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current accounts with financial institutions.

1.5 Equity

Equity is the residual interest in the assets of the company after deducting all liabilities of the company. All transactions relating to the acquisition and sale or issue of shares in the company, together with their associated costs, are accounted for in equity.

Share capital issued by the company is recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares.

K2014176899 (SOUTH AFRICA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (*continued*)
for the period ended 30 September 2015

		2015
2.	**Cash and cash equivalents**	
	Cash on hand	1
	Total	**1**

3.	**Share capital and premium**	
	Authorised:	
	100 000 000 unclassified no par value shares	100 000 000
	1 000 ordinary no par value shares	1 000
	Issued:	
	Ordinary no par value share	1
	Balance at the end of the period	**1**

Authorised but unissued shares of the company are under the control of the directors.

4.	**Cash from funding activities**	
	Issue of an ordinary no par value share	**1**

5. Related parties

The directors and the holding company are the company's only related parties. There were no related parties' transactions during the reporting period under review.

6. Statement of comprehensive income

No statement of comprehensive income has been prepared as the Company is dormant and there were no trading activities during the period under review.

7. Comparative figures

The company was registered on 9 September 2014, therefore these financial statements reflect the company's financial results and cash flows for a period from incorporation to 30 September 2015. No comparative information is provided as the 2015 financial period is the first reporting period for the company.

Annexure A3

Pro forma financial information of Good Bank for the year ended 30 September 2015

The Good Bank pro forma statement of financial position as at 30 September 2015 and the statement of profit or loss for the year then ended (the "pro forma financial information") have been prepared to show the impact of the Restructuring, based on an assumed Transaction Effective Date of: (i) 1 October 2014 for purposes of the pro forma statement of profit or loss and (ii) 30 September 2015 for the purposes of the pro forma statement of financial position. The pro forma financial information is presented for illustrative purposes only. Furthermore, because of its nature, pro forma financial information addresses a hypothetical situation and therefore does not represent the actual financial position or results of Good Bank, nor does it represent Good Bank's financial results or financial position going forward.

The pro forma financial information has been compiled from the statement of financial position of African Bank as at 30 September 2015 and from the statement of profit or loss for the year then ended, as contained in the audited financial statements of African Bank. It has been prepared using accounting policies that comply with IFRS, and are consistent with those applied in African Bank's 30 September 2015 financial statements as well as those expected to be applied in the preparation of the Good Bank financial statements. The pro forma financial information is presented in accordance with the JSE Listings Requirements, and the Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants, and in accordance with Annex II of the PD Regulation for UK Listing Authority purposes.

The Curator is responsible for the compilation, contents and preparation of the pro forma financial information. The Curator's responsibility includes determining that the pro forma financial information has been properly compiled on the basis stated, which is consistent with the accounting policies of African Bank and Good Bank and that the pro forma adjustments are appropriate for purposes of the pro forma financial information disclosed pursuant to the JSE Listings Requirements and in accordance with Annex II of the PD Regulation for UK Listing Authority purposes.

Pro forma Statement of Financial Position of Good Bank as at 30 September 2015

ZAR million	African Bank (before the Restructuring) – Note 1	African Bank (expanded) – Note 1	Excluded from the Good Bank Business – Note 2	*Pro forma* Good Bank Business before the Restructuring	Exchange Offers – Note 3	Equity injection – Note 4	VAT incurred in respect of assets – Note 5	*Pro forma* Good Bank after the Restructuring (Scenario 1)	Subordinated Exchange Offer - settled in New HoldCo Shares – Note 6	*Pro forma* Good Bank after the Restructuring (Scenario 2)
ASSETS										
Short-term deposits and cash	6 294	14 526	(5 454)	9 072		10 000		19 072		19 072
Assets classified as held for sale	37 436	-						-		-
Statutory assets	-	3 905		3 905				3 905		3 905
Derivatives and other assets	-	4 644		4 644				4 644		4 644
Net advances	6 767	26 912	(6 767)	20 145	827			20 972		20 972
Amounts owing by holding company and fellow subsidiaries	182	182	(182)					-		-
Property and equipment	-	436		436	105			541		541
Intangible assets	-	74		74	63			137		137
Goodwill	-	-			2 060		(336)	1 724		1 724
Total assets	**50 679**	**50 679**				**10 000**	**(336)**	**50 995**	**-**	**50 995**
LIABILITIES AND EQUITY										
Short-term funding	21 326	25 351	(21 326)	4 025	17 328			21 353		21 353
Liabilities associated with assets classified as held for sale	4 453	-						-		-
Derivatives and other liabilities	101	445	(101)	344	212		(106)	450		450
Bonds and other long-term funding	26 524	26 608	(26 524)	84	17 323			17 407		17 407
Subordinated bonds debentures and loans	4 569	4 569	(4 569)		1 485			1 485	(1 485)	-
Amounts owing to fellow subsidiaries	535	535	(535)		428			428		428
Deferred tax liability	-	-			102			102		102
Total liabilities	**57 508**	**57 508**					**(106)**	**41 225**	**(1 485)**	**39 740**
Ordinary share capital and premium	14 404	14 404	(14 404)			10 000		10 000	1 485	11 485
Reserves and accumulated losses	(21 233)	(21 233)	21 233				(230)	(230)		(230)
Total equity (capital and reserves)	**(6 829)**	**(6 829)**				**10 000**	**(230)**	**9 770**	**1 485**	**11 255**
Total liabilities and equity	**50 679**	**50 679**				**10 000**	**(336)**	**50 995**	**-**	**50 995**

Notes:

1. Extracted without material adjustment from the audited financial statements of African Bank for the year ended 30 September 2015. In the second column the impact of the IFRS 5 *Non-current assets classified as held for sale and discontinued operations* ("IFRS 5") disclosure in the statutory financial statements has been reversed. This was done for presentation purposes as this presentation in terms of IFRS 5 would not carry forward into the Good Bank.

   The Good Bank statement of financial position as at 30 September 2015 represents a dormant starting position with immaterial balances prior to the Restructuring. Please refer Annexure A2 for the historical financial information of Good Bank.

2. These adjustments represent the balances of African Bank which do not form part of the Good Bank Business together with a cash adjustment of ZAR5 454 million to achieve a transferred cash amount of ZAR9 072 million (including collateral cash of ZAR4 005 million which is also transferred). These adjustments are non-recurring and establish the opening position of the Good Bank's assets and liabilities.

   a. The Good Bank Business comprises the Good Book, the Operational Assets, the Retail Deposits and the Operational Liabilities of African Bank. These balances have been sourced and extracted through specific identification from the management accounts supporting the financial statements and the loan ledger records in which Good Book loans are specifically identified.

   b. In terms of the Sale of Business agreement, the transferred cash amount balances the Good Bank statement of financial position after accounting for the fair value of other assets and liabilities acquired. The fair value of the assets and the transferred cash amount has been agreed between Good Bank and the Curator on a basis that will afford Good Bank a reasonable prospect of achieving the CET Target. In terms of the Sale of Business Agreement, we have assumed a cash adjustment to balance the statement of financial position after taking into account the pro forma IFRS 3 *Business Combinations* fair value adjustments (refer to note 3).

3. These adjustments reflect the effect of the Exchange Offers.

   These adjustments are non-recurring and establish the opening position of the Good Bank's assets and liabilities.

   Senior Funders and Other Creditors will be offered the right to exchange their claims against African Bank for new claims against Good Bank and Residual Bank in terms of the Exchange Offers. Good Bank acquires the Good Bank Business in exchange for the issue of the New Debt Instruments and the assumption of the Retail Deposit Obligations and Operational Liabilities.

   The assumed transaction values of the New Senior Debt Instruments issued by the Good Bank are sourced and reflected based on the detailed calculation of these instruments in terms of the Restructuring. The Coupon Service Payment, Senior Cash Payment and Senior Stub Instruments therefore remain in Residual Bank.

   It is assumed that all Subordinated Funders participate in the Subordinated Exchange Offer, i.e. it is assumed that New Subordinated Debt Instruments equal to ZAR1 485 million is issued by the Good Bank. If the aggregate amount of the New Subordinated Debt Instruments issued by Good Bank is less than ZAR1 485 million, the transferred cash amount forming part of the Good Bank Business shall be reduced by an equal amount.

   It is assumed, for Scenario 1, that all Subordinated Funders elect settlement in New Subordinated Debt Instruments only, i.e. that no Subordinated Funders elect to receive New HoldCo Shares.

In accordance with IFRS 3 *Business Combinations* ("IFRS 3"), Good Bank is viewed as the acquirer of the Good Bank Business. Accordingly, Good Bank is required to perform a fair value exercise on the acquired assets and liabilities in terms of IFRS 3. The following fair value adjustments, compared to the carrying values of the Good Bank Business as reported by African Bank, are assumed:

ZAR million	**Carrying value**	**Fair value**	**Adjustment due to IFRS 3**	**Source and basis of indicative fair value adjustment**
Net advances	20 145	20 972	827	The fair value of the Good Book has been calculated by management using a discounted cash flow technique. The fair value has been estimated by discounting the expected future cash flows (modelled by extrapolating the most recent observed cash flows on the advances book) at the expected rate of return that a potential acquirer would require. The discount rate is a weighted cost of capital based on an assumed long-term debt to equity ratio, consistent with the capital levels required within the banking industry. The methodology applied is consistent with that applied in the audited financial statements of African Bank for the period ended 30 September 2015.
Intangible assets	74	137	63	Brand value on intangible assets is sourced from a pre-acquisition fair value exercise undertaken by management.
Property and equipment	436	541	105	This adjustment is sourced from the fair values of land and buildings disclosed in the audited financial statements for the year ended 30 September 2015.
Deferred tax liability	-	(102)	(102)	Deferred taxation is provided on temporary differences arising from the fair value adjustments on acquisition.
Goodwill	-	n/a	1 724	The goodwill is based on the amount of goodwill agreed in the Sale of Business Agreement.

The fair value adjustments set out above are based on valuations as described above. A full fair value exercise will be performed after the actual Transaction Effective Date at which time the final fair values of assets and liabilities will be determined.

The fair value of the New Debt Instruments will have to be calculated after the actual Transaction Effective Date. For purposes of these pro forma financial statements, the estimated fair value of New Debt Instruments is based on the value of the debt as disclosed in the audited financial statements.

4. As part of the Restructuring, the Consortium will subscribe for ZAR10 billion of New HoldCo Shares, which in turn will use the cash raised to capitalise Good Bank.

5. VAT of ZAR336 million arises as a result of the sale of the Good Bank Business. In terms of the relevant tax legislation, VAT at a rate of 14% will be levied on the property and equipment and intangible assets being transferred as well as on the goodwill generated in terms of IFRS 3. African Bank's VAT apportionment ratio, calculated in terms of tax legislation, has been used in preparing the accounting impact of the VAT charge. The portion of the VAT charge that will be claimed from the tax authorities has been disclosed as part of the net VAT liability. The remaining portion of the VAT charge has been allocated to reserves as a charge through the statement of profit or loss.

6. It is assumed, for Scenario 2, that all Subordinated Funders elect settlement in New HoldCo Shares. If the aggregate amount of New Subordinated Debt Instruments issued by Good Bank is less than ZAR1 485 million, the transferred cash amount forming part of the Good Bank Business would be reduced by the same amount, with an equal reduction in the share capital of Good Bank.

7. There are no other subsequent events which require adjustment to the pro forma financial effects.

Pro forma Statement of Profit or Loss of Good Bank for the year ended 30 September 2015

ZAR million	African Bank (before the Restructuring) – Note 1	Excluded from the Good Bank Business – Note 2	Exchange Offers – Note 3	SLA between Good Bank and Residual Bank – Note 4	VAT applicable to acquired assets – Note 5	Goodwill impairment – Note 6	*Pro forma* Good Bank after the Restructuring (Scenario 1)	Subordinated Exchange Offer - settled in New HoldCo Shares – Note 7	*Pro forma* after the Restructuring (Scenario 2)
Interest income on advances	8 720	(2 904)	(2 364)				3 452		3 452
Non-interest income	2 273	(829)	(1 126)	953			1 271		1 271
Income from operations	**10 993**	**(3 733)**	**(3 490)**	**953**			**4 723**		**4 723**
Credit impairment charge	(10 816)	5 727	3 969				(1 120)		(1 120)
Risk adjusted income from operations	**177**	**1 994**	**479**	**953**			**3 603**		**3 603**
Other interest income	484	(46)					438		438
Interest expense	(4 601)	4 601	(3 740)				(3 740)	198	(3 542)
Operating costs	(2 698)	-	(1)				(2 699)		(2 699)
Indirect taxation: VAT	(59)	-			(236)		(295)		(295)
Loss from operations	**(6 697)**	**6 549**	**(3 262)**	**953**	**(236)**		**(2 693)**	**198**	**(2 495)**
Other losses	(185)	-					(185)		(185)
Capital items	(330)	330				(1 724)	(1 724)		(1 724)
Loss before taxation	**(7 212)**	**6 879**	**(3 262)**	**953**	**(236)**	**(1 724)**	**(4 602)**	**198**	**(4 404)**
Direct taxation: current and deferred	-	-	1 007	(267)			740	(55)	685
Loss for the period	**(7 212)**	**6 879**	**(2 255)**	**686**	**(236)**	**(1 724)**	**(3 862)**	**143**	**(3 719)**

Notes:

1. Extracted without material adjustment from the audited financial statements of African Bank for the year ended 30 September 2015.

   The Good Bank financial statements as at 30 September 2015 represent a dormant starting position with no statement of profit or loss. Please refer Annexure A2 for the historical financial information of Good Bank.

2. These adjustments represent income and expenses in respect of the items not forming part of the Good Bank Business. The Good Bank Business comprises the Good Book, the Operational Assets, the Retail Deposits and the Operational Liabilities of African Bank, together with a transferred cash amount. These balances have been sourced and extracted through specific identification from the management accounts supporting the annual financial statements and the loan ledger records in which Good Book loans are specifically identified. These adjustments are non-recurring insofar as it relates to the one-off effect of the Restructuring, but thereafter it forms the new base for income and expenses of Good Bank.

   Adjustments to components of risk adjusted income from operations are made to remove income and expenses which relate to the Residual Book, and therefore to reflect interest income on advances, non-interest income and credit impairment charges relating to the Good Book only.

   Adjustments to other interest income are made to reflect interest on assets included in the Good Bank Business only.

   No other interest income was assumed on the cash adjustment for purposes of the transferred cash amount (ZAR5 454 million per note 2 to the pro forma statement of financial position). No interest adjustment is assumed on net cash inflow (see also note 8 below) as the use of the cash has not been committed in terms of the Sale of Business Agreement and is therefore assumed to be available for working capital purposes. For illustrative purposes, interest on ZAR5 454 million would have been ZAR327 million (pre-tax). This is based on an assumed return on short-term cash of 6%.

   The reported total interest expense is reversed as it is being replaced, based on the economic assumptions of the New Debt Instruments issued by the Good Bank. Refer to the following note for these assumptions.

3. These adjustments reflect the effect of the Exchange Offers.

   It is assumed that all Subordinated Funders elect settlement in the New Subordinated Debt Instruments of R1 485 million issued by the Good Bank. If Good Bank is obliged to issue less than ZAR1 485 million of New Subordinated Debt Instruments, the transferred cash amount forming part of the Good Bank Business shall be reduced by an equal amount.

   These adjustments are non-recurring insofar as it relates to the once off effect of the Restructuring, but thereafter it forms the new base for expenses of Good Bank

   Interest expense has been calculated on the New Subordinated Debt Instruments accruing interest at a rate of JIBAR plus 7.25% (effectively 13.35%) and New Senior Debt Instruments accruing interest at a weighted average rate of 9.63%. These assumed interest rates are based on the Exchange Offers and the cost of funding for the year.

   A downward fair value adjustment of ZAR959 million to the Good Book is assumed as at 30 September 2014. The valuation is based on assumptions which are consistent with those applied in the audited financial statements of African Bank for the year ended 30 September 2014. It is assumed that an amount of ZAR479 million, relating to the fair value adjustment, is amortised and released to interest income on advances for the year. The amortisation of the fair value adjustment is based on the run-off profile of the Good Book. This adjustment is recurring until such time that the fair value adjustment of ZAR959 million is exhausted.

   The line items comprising risk-adjusted income from operations are adjusted to reflect the IFRS recognition of the Good Book at the Transaction Effective Date at fair value. This results in ZAR1 126 million of non-interest income and ZAR3 969 million of the credit impairment charge being reallocated to interest income on advances (a net reduction of ZAR2 843 million). This is a recurring adjustment.

   Operating costs are increased by ZAR1 million reflecting the additional amortisation on the fair value adjustment to property. This is a recurring adjustment. No amortisation is calculated on the brand intangible asset of ZAR63 million arising on acquisition as it is treated as an indefinite life intangible asset.

   No adjustment is made to operating costs for further non-recurring transaction costs in Good Bank, given that the transaction costs are incurred by African Bank.

   A net deferred tax asset is recognised as it is assumed that Good Bank will be profitable in the foreseeable future per the Base Case Projections. The deferred tax liability arising on fair value adjustments on acquisition is reduced at the same rate as the amortisation of the fair value adjustments underlying the deferred tax liability. This is a recurring adjustment.

4. Good Bank and Residual Bank will enter into a Service Level Agreement (SLA). A fee of ZAR953 million receivable by Good Bank for the year is assumed based on the detailed terms of the SLA, which will be implemented at the Transaction Effective Date. This adjustment is recurring in nature.

5. In terms of tax legislation, VAT at a rate of 14% will be levied on the property and equipment and intangible assets being transferred as well as on the goodwill generated in terms of IFRS 3. African Bank's VAT apportionment ratio, calculated in terms of the relevant tax legislation, has been used in preparing the accounting impact of the VAT charge. The irrecoverable portion of the VAT charge is assumed

to be ZAR236 million based on asset values as at 30 September 2014 and presented as a charge through the statement of profit or loss. This is a non-recurring adjustment.

6. A provisional assessment of the carrying value of goodwill in terms of the Good Bank forecast indicates that goodwill may have to be impaired after the Transaction Effective Date. As a result, it has been assumed in the pro forma financial information that goodwill (refer note 3 to the pro forma statement of financial position) is impaired during the first reporting period. This is a non-recurring adjustment. It should be noted that this assessment will have to be reconsidered after the actual Transaction Effective Date.

7. It is assumed, for Scenario 2, that all Subordinated Funders elect settlement in New HoldCo Shares. If less than 100% of the Subordinated Funders participate in the Subordinated Exchange Offer, the transferred cash amount forming part of the Good Bank Business would be reduced by up to ZAR1 485 million, with an equal reduction in the share capital of Good Bank. Therefore, a reduction of the interest expense of ZAR198 million is assumed based on the assumed interest rate on the New Subordinated Debt Instruments accruing at a rate of JIBAR plus 7.25% (effectively 13.35%). This adjustment is recurring in nature.

8. No other interest income was assumed on the ZAR10 billion of share capital raised by Good Bank as part of the Restructuring as the use of the cash has not been committed and is therefore assumed to be available for working capital purposes. For illustrative purposes, such interest would have been ZAR600 million (pre-tax) based on an assumed return on short-term cash of 6%.

9. There are no other subsequent events which require adjustment to the pro forma financial effects.

Annexure A4

African Bank financial information for the twelve months ended 30 September 2015 and forecast financial information for the six months ending 31 March 2016

The forecast financial information of African Bank for the six months ending 31 March 2016 is set out below. Comparative information is provided for the twelve months ended 30 September 2015, which has been extracted from the audited financial information of African Bank. The forecast financial information was prepared using accounting policies that comply with IFRS, and are consistent with those applied in African Bank's 30 September 2015 financial statements. The forecast financial information was prepared on a basis comparable with the historical financial information.

The forecast African Bank balance sheet at 31 March 2016 forms the basis for the forecast financial information of the Good Bank Balance Sheet assuming a Transaction Effective Date of 1 April 2016.

The Curator is responsible for the forecast information, including the assumptions on which it is based, and for the financial information from which it has been prepared. This responsibility arises in compliance with the Listings Requirements of the JSE Limited.

The assumptions made and applied in the preparation of the African Bank's forecast financial information set out below, are considered to be the principal assumptions. *Without prejudice to the aforegoing sentence*, these assumptions are not an exhaustive list, nor are they intended to be. The assumptions below are significant to the forecast financial information as being key factors upon which the financial results of African Bank will depend.

Certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the preparation of the forecast financial information. Accordingly, the actual results achieved for the forecast periods may differ from those forecast.

Categorisation of assumptions

Assumptions have been categorised, as appropriate, as follows and presented in brackets where relevant:

- IC – Inside management's control, being those assumptions in respect of which management can exercise some level of influence
- OC – Outside management's control, being those assumptions that are exclusively outside of management's influence
- T – Assumptions driven by the Restructuring, and therefore outside management's influence.

Assumptions are based on management best estimates relating to future events which management expects to take place and the actions management expects to take.

A4.1 GENERAL SOURCE AND ASSUMPTIONS

- The forecast financial information for the six months ending 31 March 2016 is based on assumptions relating to the whole of African Bank, as set out below.

- Forecast financial information is generally based on audited financial information to 30 September 2015 and takes into account the trends in earnings and balance sheet line items reported historically to 30 September 2015 adjusted, as set out herein, for key considerations.

- Other than specifically indicated, it is assumed that macro-economic and market conditions remain unchanged and that there are no significant changes in the regulatory environment (OC). Refer to Annexure A5.6 for detailed assumptions on exchange rates and interest rates.

- The statement of financial position at 30 September 2015 (which forms the basis for the forecasts) is also presented on a basis which shows the allocation of assets classified as held for sale to the line items to which they relate. This allows a more transparent presentation for forecasting the line items.

- It has been assumed that the Transaction Effective Date is 1 April 2016 and therefore the forecast of African Bank financial information is for the period up to 31 March 2016.

ABRIDGED STATEMENT OF FINANCIAL POSITION

ZAR million	Audited 30 September 2015	Extracted from audited 30 September 2015 (expanded assets classified as held for sale items)	Forecast 31 March 2016
Assets			
Short-term deposits and cash	6 294	14 526	20 769
Assets classified as held for sale	37 436	-	-
Statutory assets	-	3 905	3 162
Derivatives and other assets	-	4 644	5 823
Net advances	6 767	26 912	24 936
Loans to affiliated companies	182	182	152
Property and equipment	-	436	400
Intangible assets	-	74	68
Total assets	**50 679**	**50 679**	**55 310**
Liabilities and equity			
Short-term funding	21 326	25 351	27 051
Liabilities associated with assets classified as held for sale	4 453	-	-
Derivatives and other liabilities	101	445	1 081
Bonds and other long-term funding	26 524	26 608	30 121
Subordinated bonds, debentures and loans*	4 569	4 569	5 306
Loans from affiliated companies	535	535	671
Total liabilities	**57 508**	**57 508**	**64 230**
Ordinary share capital	121	121	121
Ordinary share premium	14 283	14 283	14 283
Reserves and accumulated losses	(21 233)	(21 233)	(23 324)
Total equity (capital and reserves)	**(6 829)**	**(6 829)**	**(8 920)**
Total liabilities and equity	**50 679**	**50 679**	**55 310**

*****Within the figures extracted from the 30 September 2015 financial statements, coupon payments past due in relation to subordinated bonds has been presented within short term funding. For the purposes of the forecast March 2016 figures and formation of Good Bank Balance Sheet, all outstanding subordinated bonds, including coupon payments are included within subordinated bonds, debentures and loans in order to clearly distinguish between senior and subordinated debt.

ABRIDGED STATEMENT OF PROFIT OR LOSS
for the period ended

ZAR million	Audited 12 months September 2015	Forecast 6 months March 2016
Interest income on advances	8 720	3 566
Non-interest income	2 273	816
Income from operations	**10 993**	**4 382**
Credit impairment charge	(10 816)	(2 198)
Risk-adjusted income from operations	**177**	**2 184**
Other interest income	484	484
Interest expense and similar charges	(4 601)	(3 220)
Operating costs	(2 698)	(1 601)
Indirect taxation: VAT	(59)	(65)
Loss from operations	**(6 697)**	**(2 218)**
Other losses	(185)	-
Capital items	(330)	127
Loss before taxation	**(7 212)**	**(2 091)**
Direct taxation: current and deferred	-	-
Loss for the year	**(7 212)**	**(2 091)**

A4.2 STATEMENT OF FINANCIAL POSITION ASSUMPTIONS

A4.2.1 Short-term deposits and cash

Short-term deposits and cash are independently forecast by the Treasury function of African Bank, assuming a rate of cash collections, disbursements, operating costs and capital expenditure. On the forecast balance sheet, cash levels are based upon forecasts for other balance sheet items, in particular the loan book and liabilities. However forecast levels are compared for reasonableness against the Treasury forecast financial information both from a final March 2016 closing balance perspective, as well as from a monthly build up perspective (OC).

A4.2.2 Collateral cash (included in short-term deposits and cash)

This is based on the September 2015 reported balance. The balance is assumed to move in line with forecast fluctuations in the value of derivative assets to March 2016 (OC).

A4.2.3 Statutory assets

Calculated to be the minimum required statutory assets using the prescribed formula of 2.5% of total liabilities less short-term deposits, which is required to be held as cash, and an additional 5.0% held as liquid assets (OC).

A4.2.4 Fair value derivative asset (included in derivatives and other assets)

This is based on the September 2015 reported balance and is forecast to fluctuate in line with the forecast movements in the value of the derivative assets, based on detailed modelling per swap instrument. See Annexure A5.6 for further details (OC).

The forecast 31 March 2016 statement of financial position includes a projected settlement of financial derivative assets of value ZAR450 million and settlement of a collateral cash liability of equal value which will only occur under circumstances where the Restructuring is expected to become effective (T).

A4.2.5 Other assets (included in derivatives and other assets)

This is based on the September 2015 reported balance. The balance is assumed to stay constant to March 2016, which is in line with past trends (IC).

A4.2.6 Gross Advances (included in net advances)

- The gross advances balance is as forecast by the African Bank credit models (see Annexure A5.3.1).

- Included in the gross advances balance are the following items:

  - ***Suspended interest provision*** (ZAR1 438 million) – this is based on the September 2015 reported balance, increasing by ZAR61 million per month, in line with the observed recent trend (IC).

  - ***Credit balances adjustment*** (ZAR37 million) – this is based on the September 2015 reported balance and is assumed to stay constant to March 2016 (IC).

  - ***Accrued interest*** balance (ZAR514 million) – this is based on the September 2015 reported balance, decreasing by ZAR40 million per month, in line with the observed recent trend (IC).

A4.2.7 Deferred administration fees (included in net advances)

This is based on the September 2015 reported balance (ZAR16 million), reducing by ZAR5 million per month, in line with the observed recent trend (OC).

A4.2.8 Impairment provisions (included in net advances)

This is the net advances impairment forecast calculated by the African Bank credit models (see Annexure A5.3.6), adjusted (reduced) by the suspended interest provision to align the disclosure of this line item with the current disclosure per the annual financial statements (IC).

A4.2.9 Loans to affiliated companies

These loans represent intercompany balances receivable from ABIL and its subsidiaries. The loans are assumed to stay constant, based on the September 2015 reported balance. However, any balance remaining after the expected repayment has been fully impaired and projected on that basis (OC).

A loan of ZAR150 million (plus interest) is included in the forecast at 31 March 2016 relating to the funding of the cell captive arrangements recognised at 31 March 2016, which will be transferred to Good Bank (OC).

A4.2.10 Property and equipment

This is based on the September 2015 reported balance, reducing by ZAR6 million per month, in line with the observed recent trends to reflect net trending of capital expenditure and depreciation (IC).

A4.2.11 Intangible assets

This is based on the September 2015 reported balance, reducing by ZAR1 million per month, in line with the observed recent trend to reflect net trending of capital expenditure and depreciation (IC).

A4.2.12 Short-term funding

The latest March 2016 forecast financial information for total funding liabilities is based on detailed modelling per instrument which takes into consideration actual funding balances, contractually agreed interest rates and Curatorship arrangements during this forecast financial information period. See Annexure A5.6 for further details.

The short term funding portion is based on the September 2015 reported balance, with funding liabilities moving to short-term funding in line with the scheduled contractual maturities each month between October 2015 and March 2016. This is consistent with the approach that has been taken to prepare the African Bank FY15 financial statements (OC).

A4.2.13 Bonds and other long-term funding

This is based on the latest March 2016 forecast financial information of total funding liabilities as described under "Short-term funding" above (OC).

A4.2.14 Subordinated bonds

This is based on the latest March 2016 forecast financial information for Subordinated Bonds. The forecast financial information is based on detailed modelling per instrument which takes into consideration actual funding balances, contractually agreed interest rates and Curatorship arrangements during this forecast financial information period (OC).

A4.2.15 Loans from affiliated companies

This item comprises short-term funding deposits and intercompany liabilities with the holding company and fellow subsidiaries. Balances are as at September 2015 with short-term funding deposits forecast to increase as a result of capitalised interest at a rate in line with the African Bank call rate percentage and intercompany loans not accruing interest (OC).

A4.2.16 Derivatives and other liabilities

This item comprises the following line items:

- VAT
- Fair value liabilities – funding hedges
- Insurance premium liability to the Good Bank Cell or Stangen
- Advances with credit balances
- Retail deposits
- Other creditors

Advances with credit balances, VAT and other creditors are assumed to remain static based on the September 2015 reported balances.

The insurance premium liability represents the expected premium payable in the month and Retail Deposits are assumed to rise marginally each month as a result of interest and in line with historic trends. Retail deposits are immaterial in aggregate at c.ZAR100 million as at September 2015.

Fair value derivative liabilities are based on the September 2015 reported balance and are forecast to fluctuate in line with the forecast movements in the value of the derivative assets, based on detailed modelling per swap instrument. See Annexure A5.6 for further details (OC).

A4.2.17 Reserves and accumulated losses

This is based on the September 2015 reported numbers, changing with the forecast profit/loss in the income statement (OC).

A4.3 STATEMENT OF PROFIT OR LOSS ASSUMPTIONS

A4.3.1 Interest income on advances

As forecast by the African Bank credit models (see Annexure A5.3.4), but adjusted down by suspended interest to align with historical reporting. The suspended interest adjustment is based on the September 2015 reported numbers, reduced by ZAR5 million per month in line with current trends (OC).

Forecasts reflect African Bank's updated methodology regarding the calculation of the suspended interest adjustment, as applied in the financial results to 30 September 2015.

A4.3.2 Non-interest income

As forecast by the African Bank credit models (see Annexure A5.3.4), comprising the following line items (IC):

- **Origination fees** – amortised income of upfront origination fees.
- **Monthly fees –** comprising amortised monthly fee income as well as monthly card fee income.
- **Card transaction income** – the net card transaction income (income less costs) grossed up for the cost element to provide a gross income number (the cost component is disclosed as part of operating costs).
- **Commission income and binder fees** received by African Bank from the Good Bank Cell or Stangen.

The total of non-interest income is adjusted down by fee suspension, which is based on September 2015 reported numbers and kept flat per month in line with past trends (OC).

A4.3.3 Credit impairment charge

As forecast by the African Bank credit models (see Annexure A5.3.6), adjusted (downwards) for the suspension of interest and suspension of fees (mentioned above under "Interest income on advances" and "Non-interest income"), which is in line with the disclosure in the annual financial statements (IC).

A4.3.4 Other interest income

Calculated as the monthly average of the African Bank short-term deposits and cash, multiplied by a blended rate taking into account the lower rate of interest received on the foreign cash (per Other Income assumptions in Annexure A5.5), adjusted by actual number of days per month (OC).

A4.3.5 Interest expense

The interest expense is based on detailed modelling per instrument which takes into consideration actual funding balances, contractually agreed interest rates, forecast changes in exchange rates and Curatorship arrangements during this forecast financial information period. The result of this modelling is an average rate of funding of 9.43% (including the cost of hedging to the extent swaps have been entered into, but not where the risk is economically hedged by holding foreign cash – see Annexure A5.6.8), which is applied to the average closing liabilities per month to determine the interest expense (OC).

The forecast to 31 March 2016 also includes foreign exchange losses of ZAR308 million arising as a result of assuming a ZAR2 depreciation against the USD and CHF prior to the Transaction Effective date. See Annexure A5.6.4 for further details.

A4.3.6 Operating costs

Based on detailed operating cost projections, using current run rates (IC).

A4.3.7 Indirect taxation: VAT

Due to the fact that African Bank has both vatable, as well as non-vatable income, it is subject to s17 of the Value-Added Tax Act No. 89 of 1991, which requires it to apply a turnover based methodology to apportion its input tax between what is allowed and what is disallowed. For purposes of the forecast financial information it has been assumed that its apportionment ratio will equal the current African Bank rate of 31.58%. The disallowed VAT ratio (68.42%) has been applied to the vatable portion of the forecast operating expenses to calculate the income statement impact of VAT input disallowed. In addition to this, the number is further adjusted by the impact specific VAT rulings where applicable (OC).

A4.3.8 Taxation

Assumed to be zero as African Bank is not expected to generate sufficient profits to fully utilise its accumulated loss (OC).

Annexure A5

Good Bank forecast financial information

The forecast financial information for Good Bank as at 1 April 2016 and for the periods ending 30 September 2016, 2017 and 2018 are set out on the following pages. The Curator is responsible for the forecast information, including the assumptions on which it is based, and for the financial information from which it has been prepared. This responsibility arises in compliance with the Listings Requirements of the JSE Limited.

The forecast financial information was prepared using accounting policies that comply with IFRS, and are consistent with those applied in African Bank's 30 September 2015 audited financial statements and which are expected to be consistent with those to be implemented by Good Bank after the Restructuring.

The forecast financial information was prepared on a basis comparable with the historical financial information of African Bank, taking into consideration the effects of the Restructuring, i.e. the separation of the Good Book, the restructuring of the debt through the issue of New Debt Instruments, the ZAR10 billion equity contribution by the Consortium and the implementation of the service level agreement between Good Bank and Residual Bank.

The assumptions made and applied in the preparation of the Good Bank forecast financial information, are considered to be the principal assumptions. *Without prejudice to the aforegoing sentence*, these assumptions are not an exhaustive list, nor are they intended to be. The assumptions are significant to the forecast financial information as being key factors upon which the financial results of Good Bank will depend.

Certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the preparation of the forecast financial information. Accordingly, the actual results achieved for the forecast periods may differ from those forecast.

Categorisation of assumptions

Assumptions have been categorised, as appropriate, as follows and presented in brackets where relevant:

- IC – Inside management's control, being those assumptions in respect of which management can exercise some level of influence
- OC – Outside management's control, being those assumptions that are exclusively outside of management's influence
- T – Assumptions driven by the Restructuring, and therefore outside management's influence.

Assumptions are based on management best estimates relating to future events which management expects to take place and the actions management expects to take.

ABRIDGED STATEMENT OF FINANCIAL POSITION FOR GOOD BANK

ZAR million	Forecast 1 April 2016	Forecast as at September 2016	Forecast as at September 2017	Forecast as at September 2018
Assets				
Short-term deposits and cash	15 681	15 586	14 832	10 459
Foreign Cash	3 744	7 193	12 055	14 489
Collateral cash	4 993	3 807	1 032	686
Statutory Assets	1 517	1 333	990	1 269
Fair value derivative asset	5 697	3 807	1 032	686
Other assets	242	241	126	127
New HoldCo loan	152	160	177	196
Net advances	20 176	19 433	18 389	18 745
Gross advances *	29 207	28 828	27 659	27 743
Advances fair value uplift *	93	69	33	13
Deferred administration fees *	(19)	(19)	(19)	(19)
Impairment provisions *	(9 105)	(9 445)	(9 284)	(8 992)
Net deferred tax asset	-	20	110	85
Property and equipment	505	528	553	550
Intangible assets	131	123	106	89
Goodwill	1 724	-	-	-
Total assets	**54 562**	**52 231**	**49 402**	**47 381**
Liabilities and equity				
Collateral liabilities	4 993	3 807	1 032	686
Other liabilities	1 502	1 517	1 551	1 587
Fair value derivative liability	32	6	1	-
Treasury funding - existing	36 588	37 354	36 873	31 288
Treasury funding - roll forward	-	-	-	3 067
Net deferred tax liability	103	-	-	-
Subordinated bonds - principal	1 485	1 485	1 485	1 485
Subordinated bonds - accrued interest	74	52	52	53
Total liabilities	**44 777**	**44 221**	**40 994**	**38 166**
Share Capital	10 000	10 000	10 000	10 000
Reserves and accumulated losses	(215)	(1 990)	(1 592)	(785)
Total equity (capital and reserves)	**9 785**	**8 010**	**8 408**	**9 215**
Total liabilities and equity	**54 562**	**52 231**	**49 402**	**47 381**

* The split of net advances is an additional disclosure not required under IFRS. The split is based on the carrying values of Good Book in African Bank (before the fair value accounting of the Good Book at the Transaction Effective Date) and is shown to allow better comparability.

ABRIDGED STATEMENT OF PROFIT OR LOSS FOR GOOD BANK
for periods ending 30 September

ZAR million	Forecast 6 months FY16	Forecast 12 months FY17	Forecast 12 months FY18
Interest income on advances	2 095	5 292	5 764
Non-interest income	409	1 243	1 715
Income from operations	**2 504**	**6 535**	**7 479**
Credit impairment charge	(161)	(1 342)	(2 130)
Claims Recovered from Stangen / cell captive	12	117	227
Risk-adjusted income	**2 355**	**5 310**	**5 576**
Amortisation of intangibles and impairment of goodwill	(1 732)	(17)	(17)
Other interest income	573	1 200	1 221
Interest expense	(1 607)	(3 519)	(3 218)
Operating costs	(1 148)	(2 314)	(2 301)
Foreign exchange losses	(184)	-	(34)
Indirect taxation: VAT	(269)	(109)	(108)
Operating (loss) / profit before taxation	**(2 012)**	**551**	**1 119**
Deferred tax	123	90	(25)
Direct taxation: current tax	(101)	(243)	(287)
(Loss) / profit for the period / year	**(1 990)**	**398**	**807**

The disclosure above of components of risk-adjusted income, reflects the IFRS disclosure. This recognition aligns the earnings on the advances book acquired at fair value on the Transaction Effective Date, with the Effective Interest Rate earned.

The disclosure below shows the risk-adjusted income and unwind of the advances fair value adjustment before the statement of profit or loss disclosure is adjusted to bring it in line with IFRS requirements in relation to the Effective Interest Rate. While this additional disclosure is not in terms of IFRS, it allows for comparison with historically reported earnings.

ZAR million	Forecast 6 months FY16	Forecast 12 months FY17	Forecast 12 months FY18
Interest income on advances	3 569	6 797	6 276
Non-interest income	1 104	2 365	2 464
Income from operations	**4 673**	**9 162**	**8 740**
Credit impairment charge	(2 482)	(4 171)	(3 517)
Claims Recovered from Stangen / cell captive	188	356	373
Risk-adjusted income	**2 379**	**5 347**	**5 596**
Unwind of FV adjustment	(24)	(37)	(20)
Total risk-adjusted income	**2 355**	**5 310**	**5 576**

ABRIDGED STATEMENT OF CASH FLOWS FOR GOOD BANK
for periods ending 30 September

ZAR million	Forecast 6 months 2016	Forecast 12 months 2017	Forecast 12 months 2018
Cash generated from operations:			
Cash received from lending activities and cash reserves	6 433	13 137	10 308
Cash paid to clients, funders, employees and agents	(1 164)	(2 206)	(2 281)
Increase in gross advances	(1 574)	(2 807)	(3 520)
Direct taxation paid	(101)	(243)	(287)
Decrease / (increase) in statutory assets	184	343	(279)
Cash inflow from operating activities	**3 778**	**8 224**	**3 941**
Cash outflow from investing activities			
Acquisition of property and equipment (to maintain)	(55)	(110)	(110)
Cash outflow from investing activities	**(55)**	**(110)**	**(110)**
Cash (outflow) from financing activities			
Cash (outflow) from funding activities	(369)	(4 006)	(5 770)
Cash (outflow) from financing activities	**(369)**	**(4 006)**	**(5 770)**
Increase / (decrease) in cash and cash equivalents	**3 354**	**4 108**	**(1 939)**
Cash and cash equivalents at beginning of period / year	**19 425**	**22 779**	**26 887**
Cash and cash equivalents at end of period / year	**22 779**	**26 887**	**24 948**

A5.1 FORMATION OF GOOD BANK BALANCE SHEET ASSUMPTIONS

ZAR million	A African Bank (before the African Bank Restructuring)	B Adjustments to arrive at Good Bank Business	C Good Bank Business before the African Bank Restructuring	D Exchange Offers	E VAT incurred in respect of acquired assets	F Equity injection	G Good Bank Balance Sheet
ASSETS							
Short-term deposits and cash (including collateral cash)	20 769	(7 996)	12 773	1 645		10 000	24 418
Statutory assets	3 162		3 162	(1 645)			1 517
Derivatives and other assets	5 823		5 823		116		5 939
Net advances	24 936	(4 853)	20 083	93			20 176
Loans to affiliated companies	152		152				152
Property and equipment	400		400	105			505
Intangible assets	68		68	63			131
Goodwill				2 055	(331)		1 724
Total assets	**55 310**						**54 562**
LIABILITIES AND EQUITY							
Collateral liabilities	4 993		4 993				4 993
Other liabilities	1 049	(84)	965				965
Fair value derivatives liabilities	32		32				32
Bonds and other long-term funding	52 179	(52 179)		36 588			36 588
Subordinated bonds, debentures and loans	5 306	(5 306)		1 559			1 559
Loans from affiliated companies	671	(134)	537				537
Deferred tax liability				103			103
Total liabilities	**64 230**						**44 777**
Ordinary share capital and premium	14 404	(14 404)				10 000	10 000
Reserves and accumulated losses	(23 324)	23 324			(215)		(215)
Total equity (capital and reserves)	**(8 920)**						**9 785**
Total liabilities and equity	**55 310**						**54 562**

The assumptions relevant to the formation of the Good Bank Balance Sheet (column G in the table above) are based on the Restructuring:

- The statement of financial position of African Bank will be separated on 1 April 2016, the assumed Transaction Effective Date, between Good Bank and Residual Bank. Those assets and liabilities that will not be transferred to Good Bank on the Transaction Effective Date are deducted (column B in the table above) from the forecast African Bank statement of financial position (column A) (T).

- The following assets are assumed to be purchased at fair value by Good Bank in terms of the Sale of Business Agreement (T):

  - Good Book – net advances, being loans and credit cards selected on the basis described below;

  - All derivative positions and associated collateral cash holdings;

  - All property and equipment;

  - All other trading assets, such as sundry debtors and prepayments;

  - Software intangibles;

  - The loans to affiliated companies, being the loan advanced to New HoldCo to fund the capitalisation of the Good Bank cell via InsureCo; and

  - The Top-Up Cash Amount.

- The liabilities to be assumed in consideration for these assets, in terms of the Restructuring, are (T unless otherwise stated):

  - 80% of the principal amount for Senior Funders;

  - ZAR1.485 billion of principal subordinated bond liabilities, plus accrued interest for the four months from 1 December 2015;

  - Sundry creditors and retail deposits;

  - All derivative positions and associated collateral liabilities**;**

  - Management's best estimate of the the likely settlement amount for certain potential liabilities which as at the date of this document remain under negotiation; and

  - It is assumed that the face value of the liabilities reflect their fair value at the Transaction Effective Date (OC).

- In accordance with IFRS 3 the assets and liabilities which transfer to Good Bank will do so at their fair value (OC). Adjustments are made to net advances, property plant and equipment and intangible assets in column D of the above table. Assumptions in this regard are described below (T).

- A goodwill amount of ZAR1.7 billion arises (reflected in column G), indicating the difference between the fair value of the assets acquired and the liabilities assumed in return (T).

  - Actual goodwill recognised after the Transaction Effective Date will depend on the actual fair value adjustments to assets and liabilities arising at the actual Transaction Effective Date.

  - Thereafter goodwill will have to be assessed for impairment on an annual basis in terms of IFRS, after which goodwill may have to be impaired if necessary. Any impairment will be subject to IFRS requirements on testing goodwill at the time of actual reporting.

- A provisional assessment of the forecast carrying value of goodwill in terms of the forecast assumptions indicates that goodwill may have to be impaired after the Transaction Effective Date. As a result, it has been assumed in the forecasts that goodwill is impaired during the first reporting period. It should be noted that this assessment will have to be reconsidered after the actual Transaction Effective Date.

- VAT arising as a result of the sale of the Good Bank Business has been forecast. In terms of legislation, VAT will become due on the property and equipment and intangible assets being transferred and goodwill. The recoverable portion of this VAT charge is assumed to be broadly in line with the apportionment split disclosed in Annexure A5.8.11. The irrecoverable portion is recorded in reserves at Transaction Effective Date and is recycled as a charge through the income statement in year one. This is reflected in column E of the above table (T). A tax ruling request to alleviate this VAT consequence has been filed with the revenue authorities, but the outcome is not yet known.

- The Consortium will provide ZAR10 billion of share capital to New HoldCo, which will use this equity capital to capitalise Good Bank. This is reflected in column F of the above table (T).

- The balances of cash and goodwill within the Good Bank Balance Sheet have been forecast such that, by 1 April 2018, the Good Bank CET 1 ratio will be approximately 28% (CET Target), based on the forecast financial information and based on the values of assets and liabilities as described herein (T).

- A Senior Cash Payment and Subordinated Cash Payment will be made to creditors as part of the transaction on the Transaction Effective Date of ZAR4.9 billion, representing 10% of the principal amount plus accrued interest for Senior Funders and ZAR165 million plus accrued interest for Subordinated Funders. This payment and the Coupon Service Payment will be made by Residual Bank and is therefore not reflected in the table above (T).

Cell captive arrangement

African Bank's historic sister company Stangen will not form part of the New HoldCo Group. Instead Good Bank management has decided to adopt an alternative strategy with regards to the operation of the insurance business within the New HoldCo Group. Management has decided that the insurance business will be operated through a cell captive insurance arrangement, set up in collaboration with Guardrisk. A strategy has been developed in conjunction with Guardrisk. The principal assumptions relating to the insurance arrangements are set out below.

The financial consequences of the introduction of the cell captive arrangements, as it impacts Good Bank, are as follows:

- The Good Bank Cell is set up with one or more shares owned by InsureCo. The Good Bank Cell is assumed to start business on 1 February 2016 (IC).
- In relation to premium rates, insurance commissions received and insurance claims received in Good Bank: These were previously contributed by Stangen only, and will now still be contributed by Stangen for those policies in force with Stangen as at 31 January 2016 and which remain with Stangen after this time. For those policies written from 1 February 2016 by the Good Bank Cell, commercial terms will be similar to those with Stangen (IC).
- In relation to insurance related costs and binder fees received from both Stangen and the Good Bank Cell: These, in total, will remain on the same commercial terms as were previously in existence with Stangen (IC).
- In relation to profits earned by Stangen (previously assumed to be used by New HoldCo to further capitalise Good Bank): Profits in Stangen will no longer be available to the New HoldCo Group. From the Transaction Effective Date, profits earned by the Good Bank Cell will be available to New HoldCo but are not assumed to be used to further capitalise Good Bank (IC).

All initial capital requirements and the initial technical provisions of the Good Bank Cell will be funded through a loan from Good Bank to New HoldCo, which via InsureCo, will own one or more shares in the Good Bank Cell. The loan from Good Bank will accrue interest at JIBAR plus 320 basis points. The initial loan at 1 February 2016 is approximately ZAR150 million. Any increases in capital requirements over the Base Case Period are assumed to be funded by Guardrisk or the Good Bank Cell itself through retained profits (IC).

A5.2 FAIR VALUE ASSUMPTIONS

A fair value assessment will need to be performed by Good Bank after the Transfer Date in order to determine the fair values of the assets and liabilities within Good Bank as at that date, in line with IFRS acquisition accounting rules. Fair value adjustments included in the forecasts are based on provisional assessments and current management best estimates. As a result, it is possible that the assessment after the Transaction Effective Date may result in different values to those which are estimated and assumed within the Good Bank Balance Sheet (OC).

A5.2.1 Net advances

- The net advances line historically is composed of gross advances measured at amortised cost, less recognised impairments. At Transfer Date, the fair value of this book will need to be determined.

- For purposes of forecasting the transaction and forming the most accurate projection of the Good Bank Balance Sheet, the Bank has estimated the fair value of the Good Book as ZAR20.2 billion, as at the assumed Transaction Effective Date. The estimate of this fair value was calculated as follows (OC):

  - Building run-off triangles (i.e. using historical cash flows to project future cash flows to maturity across the portfolio, segmented for example by CD Status or term) which include the following components:

    - The loan and card cash flows from the Good Book;

    - The pay-outs assume there will be no insurance grace period, versus the previous allowed grace periods of up to 12 months;

    - Insurance premiums collected on behalf of the Good Bank Cell or Stangen (modelled as cash flow out), allowing for commission to Good Bank on the premium collected;

    - Insurance claim pay-outs and premiums are reflective of the new lapsing policy – see A5.3.1 for further details on this; and

    - The cost of collections.

  - The projections of the above components are heavily influenced by the performance observed over the previous 12 months. The cash flows are discounted at 12%, based on an assumed average long-term debt to equity ratio of 70:30, with 9% before tax cost of debt and a ROE requirement of 25% (IC).

  - The forecast difference between the calculated fair value of the net advances and the book value as of Transaction Effective Date (difference of ZAR93 million) has been modelled separately to the book value. This value differential is modelled in the net advances line in the Good Bank Balance Sheet as at Transfer Date, and amortised to the income statement using a profile which reflects the amortisation of the fair value of the book (IC).

A5.2.2 Property and equipment

- On the Transfer Date the full property and equipment balance will be measured at fair value. For the purposes of forming the most accurate forecast of the Good Bank Balance Sheet the value of the property to be transferred to Good Bank has been increased by ZAR105 million. This is based on an independent valuation carried out on the property for purposes of reporting in the statutory accounts for the year ended September 2015 (OC).

- Going-forward, property and equipment will be measured at cost less accumulated depreciation and impairments, although the cost base of the property and equipment in the Good Bank projections will be increased to the fair value as at the Transfer Effective Date. It is assumed that property will amortise over 50 years (IC).

- In accordance with IFRS, a deferred tax liability relating to the fair value of the property has been created in the Good Bank Balance Sheet. This has been forecast to release over 50 years in line with the property amortisation (OC).

A5.2.3 Intangible assets

- African Bank performed a pre-acquisition fair value exercise to identify and value intangible assets to be transferred to Good Bank from African Bank (OC). This exercise will be updated after the Transaction Effective Date.

- This pre-acquisition exercise identified an intangible asset with a value of ZAR63 million relating to the value of the African Bank brand, which is being transferred as part of the Restructuring. It will be necessary for Good Bank to review this intangible asset for impairment at each reporting period. It is assumed (in line with expectations of the Good Bank policy) that this brand will be used indefinitely and therefore it is treated as an indefinite life asset with no amortisation (OC).

- A deferred tax liability has been raised within the Good Bank Balance Sheet as a result of the creation of this brand intangible asset (OC).

- Other intangible assets currently listed within the African Bank balance sheet consist of both purchased and internally developed software. Internally developed software is measured at capitalised cost less accumulated amortisation and any accumulated impairment. Purchased software is measured at cost less accumulated amortisation and any accumulated impairment. The pre-acquisition fair value exercise referenced above concluded that no change to the book value is required to reflect the fair value of these assets within the Good Bank Balance Sheet (IC). The fair value exercise will be updated post the Transaction Effective Date.

A5.2.4 Loans from previously affiliated companies

- Loans from previously affiliated companies are measured at amortised cost, under the same assumptions as applied to the New Debt Instruments. The fair value of these items will have to be determined as at Transfer Date, and recognised at fair value in Good Bank (OC).

A5.2.5 Liabilities

- It is assumed that all Subordinated Funders participate in the Subordinated Exchange Offer, i.e. it is assumed that New Subordinated Debt Instruments, equal to ZAR1.485 billion, are issued by the Good Bank (OC).

- It is assumed that on Transaction Effective Date, the fair value of the New Debt Instruments will equate to the nominal value i.e. 80% of the value of Existing Senior Debt Instruments and ZAR1.485 billion, for new Subordinated Debt Instruments. Should the actual fair value, as assessed after the Transaction Effective Date be different, it will impact the amount of goodwill recognised in the Good Bank Balance Sheet (OC). Should the assumed credit spread used in the valuation of Senior Debt change by 35 basis points from that previously observed before curatorship, the fair value will change inversely by approximately ZAR400 million.

- In line with the treatment of wholesale deposits, it is assumed that the fair value of retail deposits will equate to their nominal value. Retail deposits are forecast to total c. ZAR100 million at the Transaction Effective Date. As above, should the fair value, as assessed after the Transaction Effective Date be different, it will impact the amount of goodwill recognised in the Good Bank Balance Sheet (OC).

- In terms of the Restructuring, it is assumed that interest on the New Subordinated Debt Instruments will accrue from 1 December 2015 and be settled as part of the first scheduled coupon payment on the New Subordinated Debt Instruments (T).

A5.3 ASSUMPTIONS TO PROJECT THE PERFORMANCE OF THE GOOD BOOK

A5.3.1 Credit Models

- The Bank models its credit data projections using historical experience and new sales assumptions (IC).

- A number of variables are forecast from origination to completion of the loan, including (IC):

    - Interest gross and net of *in-duplum* requirements i.e. once an account is in default, it is required that all future interest and fees which accrue on that account, whilst it remains in default, cannot exceed the balance at the point the account enters default;

    - The number of active accounts;

    - Outstanding balances;

    - Impairment figures;

    - Funding requirements;

    - Monthly fees;

    - Expenses, based on an activity based costing model; and

    - Amounts in relation to insurance policies – including premium rates, insurance commissions received and insurance claims received.

- The relationship between these elements and the expected default rate in the first twelve months from origination of a loan, is based on observed data between the first half of 2008 and the second half of 2014 inclusive. As such an implicit assumption is made that a group of accounts with similar risk behaviour in the first twelve months will behave similarly thereafter (OC).

- Projections are differentiated between groups of accounts by risk level only, i.e. the expected default rate in the first 12 months. The abovementioned elements can therefore be forecast for each defined default rate (IC).

- For each risk level, a series of curves is fitted based on historic experience (IC). These curves include:

    - Attrition or settlements (OC);

    - Write-offs (OC);

    - Loss amounts (OC);

    - Balance rundown (OC);

    - Recoveries (OC);

    - Insurance lapses (OC);

    - Insurance pay-outs; and

    - *In-duplum* accruals (OC).

- The curves were extrapolated where the term of the loans exceeded the historic data period (IC).

- Results were back tested against past experience, including prior income statements. The accuracy of the impairment forecasts was validated against actual impairment data for the period from October 2014 to September 2015 and, as such, an adjustment is made to the forecast to update for changes in economic conditions since the credit models were originally developed (IC).

- African Bank has updated the premium advancement arrangement whereby the insurance premiums were historically paid by African Bank on behalf of defaulting loan customers up to a maximum of Contractual Delinquency 6 (CD6) and Recency 6. The updated approach varies depending on borrower characteristics but will result in a shorter average premium advancement period and is forecast to have a positive effect on Good Bank profitability (IC).

A5.3.2 Methodology taken to determine Good Book vs Residual Book

- The Selected Loans and New Loans, have been identified from the underlying loan book records, and included in the Good Book as follows (T):

  - All New Loans originated during the Interim Period, which reflect the new lending criteria introduced on the Curatorship Date, have been assigned to the Good Bank;

  - Any loans (including limit increases) originated whereby the credit score at origination met the lending requirements per the credit policy initiated post curatorship and were not affected by credit amnesty;

  - All accounts with a written off or rehabilitation status at curatorship date were assigned to Residual Bank, irrespective of whether other criteria were met;

  - Loans to Ellerine Furnishers’ customers (i.e. furniture loans) and those customers who repay on a cash basis have been excluded;

  - Loans originated in African Bank branded kiosks in the Ellerines distribution channel have been excluded;

  - Since Residual Bank will not have a banking licence after the Transfer Date, all active credit card accounts, as at the Transfer Date, are included in the Good Book, even though they may not meet the revised borrower criteria in terms of the new more conservative lending model; and

  - The balances of unallocated loans, not identified above, were assigned to the Residual Book.

A5.3.3 Changes to the credit forecasts to accommodate the New NCR Regulations

- For the purpose of the forecast financial information it is assumed that insurance and NCR rate caps become effective on 1 May 2016, which is in line with recent announcements that the rate caps will become effective from 6 May 2016. It is assumed that the credit methodology will not change again after this point (OC).

- The requirements of the New NCR Regulations will be addressed by reducing the size and term of loans (see details below). In addition, there will be improved targeting of lower risk business and a reduced targeted return on equity. As outlined below, after implementing the necessary changes to accommodate the New NCR Regulations, the average loan size, including the credit card book, is forecast to reduce, from the levels in FY15, by 25% (from ZAR19.2 thousand to ZAR14.4 thousand) and the average loan term from 43 to 42 months (IC).

- The assumed number of applications and the assumed risk distribution of applicants are unaffected by the New NCR Regulations (OC).

- Good Bank will offer all new credit card customers a standard card product to achieve a more uniform fee structure (IC).

A5.3.4. Income

Interest rates have been assumed to rise as a result of increasing repo rates. Repo rates have been assumed to increase by 25bps in January 2016, 25bps in July 2016 and a further 25bps in January 2017; increasing from 6.00% to 6.75% over the Base Case Period. Repo rate increases have been assumed to occur at potential dates of the Monetary Policy Committee of the SARB (following 2015 dates), which are assumed to occur on the last working day of the month. The SARB announced an increase in repo rates of 25bps to 6.25% in November 2015, whereas the forecast assumes this increase to occur in January 2016. This variance of two months is considered to be immaterial for forecasting purposes and to reflect a timing difference in repo rate increases as opposed to an adjustment to the shape of the overall curve. No further actual increases in repo rates have been factored into the forecast. Refer to Annexure A5.6.6 for further commentary on assumed interest rates (OC).

It is assumed that by the end of the Base Case Period:

- For loans (IC):
    - the average interest rate will decrease by 13% relative to the average rate in place in African Bank in FY15;
    - the average monthly fee will increase by 20% relative to the average fee in place in African Bank in FY15;
    - the average initiation fee will increase by 5% relative to the average fee in place in African Bank in FY15;
    - the average loan size will decrease by 34% relative to the average loan size in African Bank in FY15; and
    - the average term will decrease by 2% relative to the average term in African Bank in FY15.
- For credit cards (IC):
    - the average interest rate will increase by 2.5% relative to the average rate in place in African Bank in FY15;
    - the average monthly fee will increase by 20% relative to the average fee in place in African Bank in FY15;
    - the average initiation fee will stay constant at the level in place in African Bank in FY15; and
    - the average credit limit will stay constant at the level in place in African Bank in FY15.

Commission earned on insurance business is included in non-interest income. It has been assumed that commission will be earned at current rates in place, being 22.5% on group life policies and 7.5% on individual life policies. Expected regulatory changes may limit the commission earned and the effective date of implementation is uncertain.

A5.3.5 Sales

The following sales figures are based upon African Bank's historic performance, Good Bank management team's expectation of future economic conditions, and the anticipated impact of the New NCR Regulations. It is assumed that, following the New NCR Regulations, neither the overall level of applications nor the risk and affordability profile of the applicants will be affected. However, after implementing the updates to the credit methodology since Curatorship, the forecast Good Bank sales figures reduce from the level in African Bank prior to Curatorship as outlined in the following table (IC):

Rand value disbursed (ZAR million) forecast from FY16:

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total
FY14	1 959	2 011	2 207	1 769	1 430	1 493	1 666	1 563	1 287	1 026	758	751	**17 920**
FY15	705	698	720	560	495	594	610	654	750	795	751	904	**8 236**
FY16	852	887	918	744	759	813	869	706	717	678	744	757	**9 444**
FY17	676	703	727	590	604	656	701	763	775	733	804	818	**8 550**
FY18	757	787	814	660	677	735	785	854	868	820	900	916	**9 573**

A5.3.6 Provisioning policy (IC)

African Bank has recently reviewed and updated the methodology to estimate provisions to move away from provisions based on probabilities of default and losses given default, towards a methodology that management believes provides an improved estimate based upon forecast cash flows. Additional adjustments have been made as part of this, to ensure that this provides a more prudent approach, for example basing provisions purely on the customer's contractual default ('CD') status without allowing for 'curing' within CD groups and removing the minimum threshold above which a shortfall in payments will lead a customer to move between CD groups. This approach has been implemented by African Bank prior to the end of the 2015 financial year and this practice will continue in Good Bank going forward. In due course, this will also bring Good Bank closer to the requirements of IFRS 9. Provisions will be quantified on an overall portfolio level based on the delinquency state of the loans within the segments identified below.

Segment	**Criteria**	**Methodology**
Unimpaired Portfolio	Contractual CD = 0, i.e. contractual up to date (contractual arrears = 0)	IBNR: Emergence factor x loss given 1 missed instalment
Impaired Portfolio	Contractual CD >= 1, i.e. missed at least one or a portion of one contractual instalment	Expected cash flows modeled using specific payment behaviour segmentation.

The Good Bank projections assume that Good Bank will fully provide against loans where no payment has been received for six consecutive months, which is also consistent with the 30 September 2015 treatment in African Bank.

A5.3.6.1 Definitions and descriptions relating to the table above

- Impairment Event
  - The impairment event is the first point in the life of a loan where there is objective evidence that the account has become impaired.
  - The impairment event used in these calculations is the point where arrears are identified on the account. This impairment event has been chosen because a high proportion of these accounts roll through to default.
- Emergence Factor (EF)

  The Emergence Factor is a factor applied to the CD0 bucket (i.e. those proportion of loans that have not missed a payment or portion thereof) to represent the probability that an impairment event will occur during the emergence period of 90 days. This emergence period is consistent with the African Bank audited position for the 30 September 2015 financial year end and has been extended from the emergence period of 30 days used previously. Monthly estimates used consist of the balance and point in time weighted average of the emergence rate for the 12 most recently matured months.

A5.3.6.2 Cash flow valuation methodology

The following principles apply to the cash flow valuation models described above and are in line with the approach which has been adopted by African Bank for FY15 financial statements:

- Cash flow methodology is used to forecast the expected future collections (as a percentage of balance) of loans that migrate from one contractual CD status to another on a monthly basis. This is based on the observed historic collections that were registered against similar populations in the past. The expected cash flows are discounted at the original effective interest rate.
- Insurance premiums paid over to the Good Bank Cell or Stangen are not treated as cash flows out.
- Insurance claims post-default are treated as cash flows in, provided that the claim incident date was prior to default or within a 1 month grace period after default date. The first default date per account is used, i.e. the first default date persists even if the account cures at a later date.
- The forecast window is set at 60 months.
- The forecast cash-flows are recalculated quarterly (one month prior to financial quarter ends) and used to re-quantify the required balance sheet provisions on all the underlying portfolios.
- Cash flow forecasts are back tested annually.
- A standard run-off triangle methodology is used to quantify (and forecast) the month-on-month growth in cumulative collections. These ratios are subsequently forecasted and multiplied with the relevant segment instalments (or balance), in order to generate expected monthly cash values.
- The new methodology provides more weighting to the most recent 12 months of performance which in this instance provides a more conservative coverage.

The discounted cash flows of the Card portfolios are now limited to the balance at observation i.e. no negative Loss Curves are permitted as a result of factors such as future drawdowns. The cash flows are limited to future interest and fees less payments, resulting in a more prudent approach.

A5.3.6.3 Written-off book value

The written-off book consists of assets that are moved off-balance sheet. No future valuation of written-off loans is assumed in the provisioning policies of Good Bank. The current policy is that there is no rehabilitation of loans that have been written-off back to the balance sheet.

A5.4 OPERATING EXPENSES ASSUMPTIONS

The operating expenses for Good Bank during the Base Case Period have been estimated as a function of a forecast development of the current African Bank cost base. The impact of additional cost saving initiatives is also reflected within the projections for Good Bank (IC).

A5.4.1 Forecast African Bank operating cost base (IC)

- Direct collection costs are forecast based on the size and CD status of the loan book included within the Collections Model.

- The direct collection costs are assumed to comprise the following elements:

  - Electronic payments: Electronic payments “debit order strikes” are a cash collection tool used across all CD Status categories. The number of electronic “debit order strikes” and unit cost thereof are extrapolated to determine the total forecast cost of electronic payments.

    - In order to project the number of strikes during the Base Case Period, an average number of account strikes per loan was calculated for the loan categories (CD0, CD1-4, CD4+) based on African Bank data from August 2014 to March 2015. This was assumed to stay constant during the Base Case Period and was applied to the forecast development of the loan book obtained from the Collection Model to determine the forecast number of strikes.

    - In order to project the unit costs during the Base Case Period, an average unit cost per strike was calculated based on African Bank data from August 2014 to March 2015. It was assumed that inflation would be applied to these costs on a monthly basis, at an annual rate of FY16: 5.90%, FY17: 5.55% and FY18: 5.80%.

  - Call centre: The collections call centre is the tool for soft collections. Loans in the CD1-4 category are assumed to be a proxy for the loans in the collections call centre. A unit cost per loan has been calculated for the collections call centre based on African Bank data for call centre operating expenses and number of loans within CD1-4 between August 2014 and March 2015. This unit cost is assumed to grow in line with the above inflation rates and is applied to the CD1-4 loan book as forecast by the Collections Model.

  - Legal Collections: Loans in categories CD4+ are assumed to be a proxy for the loans in this stage of the collections lifecycle. A unit cost per loan is calculated for legal collections based on African Bank data for legal collections operating expenses and number of loans in CD4+ between August 2014 and March 2015. This unit cost is then applied to the CD4+ loan book projections and inflation is applied to project the cost, as set out above where legal collection costs are contingent upon cash receipts, the projected costs are based on projected cash flows for loans in this category.

- Remaining costs: The operating expenses for all other cost items has been forecast as at the Transaction Effective Date based upon African Bank’s management budgets which reflect the impact of the historic cost reduction initiatives from FY15 relating to the right sizing of head office, lease renegotiations and branch closures amounting to ZAR256 million. It has been assumed that these cost items would increase during the Base Case Period in line with the above inflation rates.

A5.4.2 Forecast Residual Bank Recharge (included in non-interest income) (T)

- It is anticipated that Good Bank will assume responsibility for the servicing and collections of the Residual Book. The services are expected to include (but not be limited to) the following functions: collections, service call centre, payments, debtors’ administration, risk and compliance, and support services.

- The Residual Bank recharge relates to the methodology through which Good Bank will recover the cost of collections from Residual Bank on commercial terms. To determine the fee structure Good Bank will charge the residual business, an exercise was undertaken to define the costs applicable to both the management of and the collecting of the portfolio.

- The amount of this recharge has been estimated on the following basis:

  - The fee structure that has been agreed between the parties consists of both a fixed and variable component:

    - The fixed cost component relates to servicing and administration costs, such as Customer Service, IT, Finance, Risk, Treasury and Cash flow, and back office management. An absorption based costing approach (i.e. identifying appropriate cost drivers and a unit cost per cost driver) was used to determine a fixed customer servicing cost, per customer per month. This cost will be charged based on all customers (unique ID's) that have an outstanding balance on their loan accounts at the end of each month.

    - The variable charge that will be levied by Good Bank is set as a percentage of the amount collected, split between soft collections and hard collections. This fee component ensures that the team in Good Bank responsible for managing the collections on the residual portfolio is incentivised to collect as much as possible, as no part of this fee is a fixed component. The costs that this fee will be required to cover will include directly attributable collections costs such as: debit order payments, call centre and legal collection services including salaries, telephone, and other incidental costs that will be incurred in the collections of this portfolio.

  - The fee structure proposed varies depending on the delinquency of the portfolio and recognises the fact that as loans migrate into a higher delinquency status, the cost of collections increases.

  - Based on the forecast cash flows from the Residual Book, the forecast number of accounts on book on a monthly basis, and the fees set out above, it is forecast that the cost of collections to be charged by Good Bank to Residual Bank will be ZAR339.2 million for the six months ending FY16, ZAR651.2 million in FY17 and ZAR505.4 million in FY18.

- The amount of this recharge has been allocated to non-interest income, while the related operating costs are included in operating costs.

A5.4.3 Additional Cost Saving Initiatives (IC)

ZAR256 million annual cost savings have already been identified and implemented in African Bank in 2015. These cost savings are reflected in the Good Bank operating expenses through the establishment of a lower base of costs projected into the Base Case Period. Further cost reduction initiatives assumed to be implemented in Good Bank have been identified in two phases, calculated as follows:

- Phase 1 – A further cost reduction of ZAR135 million has been assumed to be achieved by year three of the Base Case projection. The specific savings have not yet been finalised. This may include branch rationalisation as well as process improvement, which will result in delivering a more customer centric proposition to the market. The ZAR135 million is a management estimate based on the Base Case projection, however with potential alternative strategies being considered, it has not been finalised. ZAR8 million, ZAR43 million and ZAR84 million of savings are forecast in FY16, FY17 and FY18 respectively.

- Phase 2 – It will be necessary for Good Bank to retain additional resources in order to provide the loan collection services outlined above to Residual Bank. It has been assumed that as the Residual Book pays down, and the fee earned by Good Bank reduces, Good Bank will eliminate costs associated with the collection and management of the Residual Book at a rate equal to half the reduction in the fee earned. The reason for this is that not all the costs related to the collection of the Residual Book are variable in nature. The forecast cost saving from this phase is ZAR200 million (before tax) over the Base Case Period, with ZAR50 million and ZAR150 million of savings forecast in FY17 and FY18 respectively.

A5.5 OTHER INCOME

A5.5.1 Interest on deposits

- Monthly interest income is assumed to be earned on the closing cash balance and on near cash instruments (OC):

  - Based on the current interest rates available on call and three month deposits for ZAR cash and nine months for USD funding, and the assumed investment profile for Good Bank, 6.76%, 1.50% and 0.00% interest has been assumed to be earned on all ZAR, USD and CHF short-term deposits and cash respectively, as well as collateral cash as reflected on the balance sheet.

  - Statutory Assets are assumed to earn interest as follows:

    - 0% interest earned on minimum Cash Reserve requirements held with the SARB. This is calculated as 2.5% of total liabilities less short-term deposits which is required to be held as cash.

    - 6.76% interest earned on the 5.0% balance of statutory assets held as liquid assets and any additional assets held above the minimum requirements, as at the Transaction Effective Date.

- Initial interest rates applied to the ZAR cash balance, statutory assets and other near cash instruments are increased generally in line with repo rate assumptions, to 7.01% by the end of the projection period (OC).

- Interest income is apportioned monthly (IC).

A5.6 LIABILITIES ASSUMPTIONS

A5.6.1 Indicative average funding rates (OC)

The table below shows the indicative average funding rates, based on detailed analysis of the actual interest rates payable on the various debt instruments and the detailed modelling of funding costs associated with hedging. The opportunity cost of holding foreign cash is not included in these rates.

	Actual				Forecast		
	FY12	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Funding rates	9.2%	8.6%	8.7%	9.5%	9.2%	9.0%	8.6%

A5.6.2 Repayment and refinancing (OC)

The table below shows the forecast debt repayments and refinancing, based on the assumed roll-forward of 65% of bilateral funding, and 100% of intercompany loans, on maturity.

ZAR million	**FY15**	**FY16**	**FY17**	**FY18**
Repayments	-	-	-	5 882
Bilateral debt rolled forward	-	-	-	(3 067)
Intercompany loans rolled forward	-	-	-	(537)
Net repayments	-	-	-	2 278

A5.6.3 Maturities (T)

Maturities of each liability, including Call Deposits, have been extended by the period of Curatorship plus 24 months i.e. 1 330 days has been added to the contractual maturity dates of existing instruments assuming a Transaction Effective Date of 1 April 2016. (Note that maturities have been extended by a period of 1 333 days for the purposes of the Exchange Offers, which are based on a Transaction Effective date of 4 April 2016).

A5.6.4 Foreign exchange (OC)

- 8 August 2014 closing rates, CHF ZAR rate of 11.7709 and USD ZAR rate of 10.6594, have been used for the Curatorship date, 10 August 2014.

- **Foreign currency liabilities and foreign currency cash assets:** It is assumed that the CHF ZAR and USD ZAR exchange rates used to revalue foreign currency liabilities and foreign currency cash assets at the year-end balance sheet dates will fluctuate during the Base Case Period in line with derived forecast spot rates indicated in the table below. The calendar year end rates were derived from a curve based on Bloomberg information using forecast spot rates from various local and international financial institutions published during the period September 2015 to November 2015, but adjusted by ZAR2/USD and ZAR2/CHF as at Transaction Effective Date and each year end balance sheet date, to allow for the depreciation of the ZAR during December 2015 and January 2016. Certain outliers were removed from the population and the September closing spot values were interpolated from the closing calendar spot rates. This results in the expected future spot curve as at each September year end and as at the Transaction Effective Date as shown below.

	Actual	Forecast			
	FY15	**1 April 16**	**FY16**	**FY17**	**FY18**
USD ZAR	13.86	15.84	15.82	15.04	14.79
CHF ZAR	14.22	16.24	16.26	15.18	14.68

Updates to market forecasted spot rates subsequent to November 2015 are per management's view, not representative, given the substantial volatility in ZAR exchange rates since then and the uncertainty in the market. The curve for forecast spot exchange rate movements is therefore based on the Bloomberg information as adjusted and indicated above.

- The forecast financial information is reliant on the Rand exchange rate assumptions made and applied in the preparation of the Good Bank Forecasts. There has been recent increased volatility in Rand foreign exchange rates. In order to assist further in the assessment of the impact of this volatility we present the effect that the ZAR2 depreciation against the USD and CHF before the Transaction Effective Date has had on key metrics within the forecast Good Bank.

	The effect of a ZAR2 depreciation pre Transaction Effective Date to the following rates			
	Pre Transaction Effective Date	**Post Transaction Effective Date**		
	6m to March 2016	**6m to Sept16**	**FY17**	**FY18**
USD ZAR	15.84	15.82	15.04	14.79
CHF ZAR	16.24	16.26	15.18	14.68
(Loss) on earnings ZARm	(395)	(47)	(92)	(102)
Impact on liabilities ZARm Increase	-	3,387	2,582	2,089
Impact on CET Target	-	(0.4%)	(1.4%)	(1.9%)

The variance analysis disclosed within the table reflects both the net interest impact and foreign exchange losses, but excludes the impact of adjustments to the Top-up Cash Amount and Goodwill as these are not a direct impact of the foreign exchange rate movement.

The impact of the volatility of the exchange rate on the carrying value of liabilities is substantially mitigated through an economic hedge resulting in an increase in foreign currency cash and other financial instruments.

A5.6.5 CPI index projections (OC)

- **Inflation linked liabilities:** Various local economists' consumer inflation forecasts were used to derive a composite average inflation curve as shown in the table below. The inflation linked liabilities are revalued at the year-end balance sheet dates using the derived inflation curve and the annual coupons are also inflated using the same curve.

	Actual	Forecast		
	FY15	**FY16**	**FY17**	**FY18**
Average inflation rate	4.92%	5.90%	5.55%	5.80%

- **Inflation linked swaps:** It is assumed that new inflation linked swaps will be entered into on the Transaction Effective Date so as to match and hedge the inflation linked liability funding. The fixed ZAR pay leg of the swap is discounted using the ZAR zero coupon curve and the floating inflation linked receive leg is determined by inflating the ZAR receive amounts by the market inflation index and discounting the result by the ZAR zero coupon curve.

- CPI indices have been updated with actual numbers to September 2015. The monthly indices are published by Statistics South Africa.

- The projection of monthly indices going forward was performed using local economists' composite inflations rates as provided above. Daily indices are then obtained by interpolating the monthly indices using the following formula:

$$Ref\_CPI = Ref\_CPI_J + \frac{(t-1)}{D}\{Ref\_CPI_{J+1} - Ref\_CPI_J\}$$

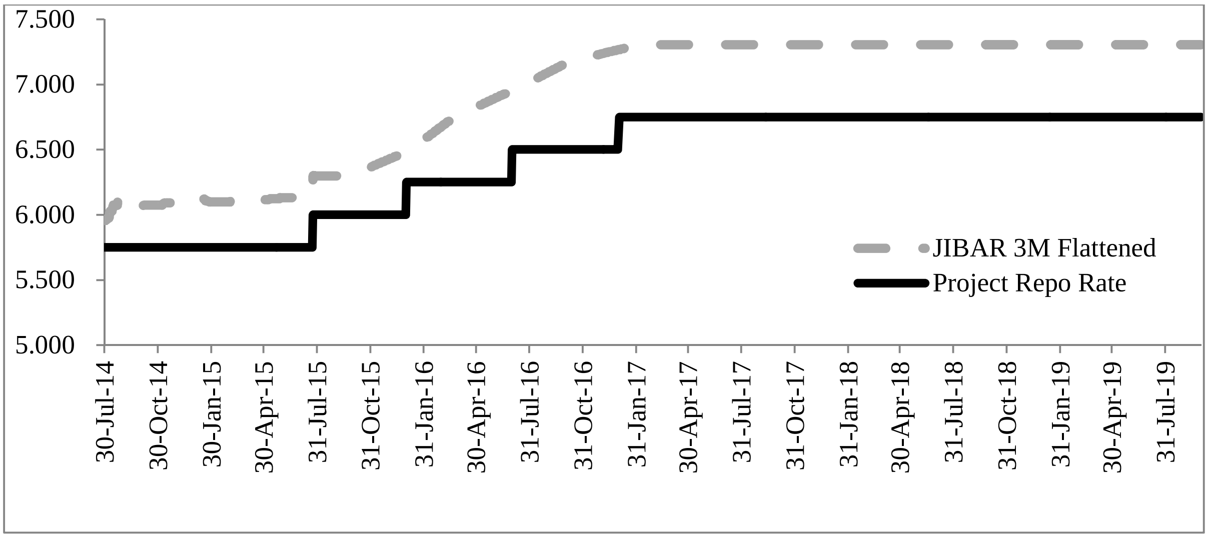
Where:
  - Ref_CPI is the CPI Index for the applicable payment date;
  - Ref_CPI_J is the index level for the first day of the fourth calendar month preceding the calendar month in which the applicable payment date occurs;
  - Ref_CPI_{J+1} is the index level for the first day of the third calendar month preceding the calendar month in which the applicable payment date occurs;
  - t is the calendar day corresponding to the applicable payment date; and
  - D is the number of days in the calendar month in which applicable payment date occurs.

- Base indices for each new instrument are as per the original contracts, and thus were not pulled from the curve.

A5.6.6 JIBAR projections (OC)

- Actual JIBAR is used until September 2015, and thereafter projections are used.

- 3 month JIBAR forward curve has been forecast to track the repo rate, which is assumed to increase by 25bps in January 2016, July 2016 and January 2017; increasing the repo rate from the current level of 6.0% to 6.75% over the forecast period. Please see further illustration of this below. As noted in Annexure A5.3.4, although the repo rate changed in November 2015, we have assumed that the repo rate increases in January 2016. No actual subsequent repo rate increases have been taken into consideration.



- The forecast financial information is reliant on the interest rate assumptions made and applied in the preparation of the Good Bank Forecasts**.** Recent volatility in the market may result in interest rate increases beyond those forecast. Analysis indicates that an increase in interest rates generally have a positive net impact on profit as a result of changes to interest earned and interest paid, before any potential impact on the credit performance of the Good Book.

A5.6.7 Derivatives/Swaps (OC)

- Estimated swap funding cost is assumed to vary over the Base Case Period, based on detailed calculations with reference to the specific interest rates applicable to the underlying instruments, and after considering the effective cost of hedging and derivatives.

- Foreign currency derivative assets and derivative liabilities are assumed to transfer to Good Bank at full value and remain in place until they mature, at which point they will not be replaced and the USD or CHF cash realised at maturity will be held as an economic hedge against future exchange rate movements.

- Existing inflation linked swaps are assumed to have been terminated prior to the Transaction Effective Date, and new inflation linked swaps entered into on the Transaction Effective Date for the inflation liability in Good Bank.

- Remaining swap collateral cash and liabilities are assumed to transfer to Good Bank at 100% of face value, fluctuating in value during the Base Case Period in line with exchange rate projections and remain in place until the underlying instrument to which they relate has matured.

- The foreign currency swaps are revalued to determine their market value as at each of the forecast balance sheet dates. The ZAR pay contractual obligations are discounted using the ZAR basis adjusted zero coupon curve as at 30 September 2015. The ZAR basis adjusted curve consists of the ZAR swap curve plus currency basis spread adjustment. The swap curve used is a combination of one, two and three month JIBAR rates, forward rate agreements to one year and then the swap rates for two to 30 years. The USD or CHF receive contractual flows are discounted using the applicable foreign currency's market zero coupon curve as extracted from Bloomberg. The present value of the foreign currency legs are converted to ZAR using the expected future spot curve, as explained in Annexure A5.6.4 above. The expected future spot rates are not market observed forward rates and therefore the expected market value at each forecast balance sheet date does not represent a risk-neutral forward fair value, but a market value assuming the forward rates in Annexure A5.6.4 holds true.

A5.6.8 Hedging and Hedge Accounting

- It is assumed that the same liability hedging strategy as was in place in African Bank prior to entering into curatorship, will apply to managing the various risks associated with the funding liabilities within Good Bank i.e.:

  - Foreign exchange risk will be neutralised by cross currency hedges and holding foreign currency cash assets;

  - All inflation risk will be neutralised by CPI linked hedges and holding inflation liked assets; and

  - Interest rate risk, to the extent that it was neutralised prior to curatorship, will be managed by interest rate hedges.

- It is also assumed that, Good Bank will not apply hedge accounting and that the mark to market movements in the underlying hedges will therefore affect the income statement of Good Bank.

- The current hedging contracts within Residual Bank will be transferred to Good Bank in terms of S54 of the Banks Act. However, for purposes of the financial modelling, the inflation linked contracts are assumed to have been terminated and new contracts entered into on the Transaction Effective Date. It is then assumed that any fair value derivative asset or liability within Good Bank will remain in place until it matures, at which point the derivative instrument will not be replaced. Good Bank will retain the cash realised on maturity, in order to manage their foreign currency risk by way of economic hedging. No inflation of interest rate derivative instruments will mature during the Base Case Period.

A5.6.9 Effective interest rate for the funding within Good Bank

- Each New Debt Instrument is assumed to have the same contractual interest rate as that of the corresponding Existing Debt Instrument, in terms of the Restructuring (T).

- The interest expense charge recorded in the Good Bank income statement will comprise contractual cost and the estimated swap funding cost described above (OC).

- Interest accrued at period end is included in liabilities, as part of the treasury funding line on the balance sheet. Interest on subordinated bonds in shown on a separate line on the balance sheet (IC).

- In terms of the Restructuring, interest will accrue on the subordinated bonds from 1 December 2015 and will be settled as part of the first scheduled coupon payment on the New Subordinated Debt Instruments (T).

A5.6.10 Refinancing and roll overs

- It is assumed that for maturities of bilateral funding, (being all funding other than DMTN and EMTN bond issuances and intercompany loans) 65% of the maturity rolls into a new funding instrument issued by Good Bank at the existing interest rate and extended maturity dates (which are assumed to occur beyond the Base Case Period). It is assumed that 35% is repaid (OC).

- It is assumed that for existing intercompany loans, 100% of the maturity rolls into a new funding instrument issued by Good Bank at the existing interest rate and extended maturity dates (which are assumed to occur beyond the Base Case Period). As such, it is assumed that no withdrawals are made from the intercompany deposit accounts in the Base Case Period (OC).

- DMTN and EMTN bond issuances maturing during the Base Case Period are assumed to be repaid as and when they become contractually due with no replacement bonds being issued (IC).

- A minimum liquidity ratio of 15% of net advances will trigger further refinancing. It is not forecast that this trigger will be reached during the Base Case Period (IC).

- It has been assumed that a Senior Cash Payment and Subordinated Cash Payment of ZAR4.9 billion will be made to creditors on the Transaction Effective Date, representing 10% of the principal amount plus accrued interest for Senior Funders and ZAR165 million plus accrued interest for Subordinated Funders. This has been added to the Restructuring to reduce the negative drag on earnings associated with holding high cash balances. This payment will be made by Residual Bank and is therefore not reflected in the Good Bank forecast (T).

A5.7 REGULATORY CAPITAL ASSUMPTIONS (OC)

African Bank currently uses, and Good Bank will use, the following approaches for regulatory capital calculations:

- Market risk: the standardised approach;

- Credit risk and counterparty credit risk: the standardised approach;

- Equity risk: 100% risk-weighted by virtue of the standardised approach used for credit risk; and

- Operational risk: the alternative standardised approach.

The method listed above relies primarily on risk-weighting defined assets. Hence, it is possible to forecast risk-weighted assets by using defined or historically observed risk-weightings, for certain lines of the balance sheet. The specific risk-weightings used are shown in the table below.

<table>
<tr><th>Risk type</th><th>Balance sheet item</th><th>Risk-weighting</th><th>Comment</th></tr>
<tr><td>Market Risk</td><td>Net open cash position per currency in ZAR equivalent</td><td>100%</td><td>The ZAR equivalent of greater of the long or short net open position for all foreign currency balances requires capital of 8%, multiplied by 12.5 to create an effective 100% RWA requirement</td></tr>
<tr><td rowspan="5">Credit Risk</td><td>Short-term deposits and cash</td><td>20% / 50%</td><td>Interbank deposits in ZAR are risk weighted at 20%, while foreign currency deposits are risk weighted at 50%</td></tr>
<tr><td>Collateral cash</td><td>20%</td><td>Interbank deposits, all in ZAR</td></tr>
<tr><td>Statutory assets-bank</td><td>0%</td><td>Assets held at SARB, sovereign risk</td></tr>
<tr><td>Other assets-Intergroup</td><td>100%</td><td>Loans from 'Good Bank' to group risk-weighted as an unrated commercial loan</td></tr>
<tr><td>Net advances</td><td>85%</td><td>Based on Good Book analysis for September 2015</td></tr>
<tr><td>Counterparty credit risk</td><td>Fair value of derivative asset, net of cash collateral held</td><td>82%</td><td>Based on pro forma BA 200 results analysis for August 2015

We have assumed the following in our risk weight percentage calculation of counterparty credit risk in respect of derivatives:
Stable composition of derivative type
Stable composition of counterparty type
Stable composition of remaining maturity</td></tr>
<tr><td>Credit value adjustment (CVA)</td><td>None</td><td>n/a</td><td>Based on pro forma BA 200 results analysis for September 2015 (ZAR350 million Risk Weighted Assets)

We have assumed the following in our risk weight value applied in our calculation of CVA Risk Weighted Assets:
Stable composition of derivative type
Stable composition of counterparty type
Stable composition of remaining maturity
Stable composition of notional values</td></tr>
<tr><td rowspan="3">Operational risk</td><td>Gross advances</td><td>5.25%</td><td>Three reporting period average not available, therefore available average to date used, risk-weighted at 3.5%*12% (retail)*12.5</td></tr>
<tr><td>Short-term deposits and cash</td><td>6.56%</td><td>Three reporting period average not available, therefore available average to date used, risk-weighted at 3.5%*15% (commercial)*12.5</td></tr>
<tr><td>Collateral cash</td><td>6.56%</td><td>Three reporting period average not available, therefore available average to date used, risk-weighted at 3.5%*15% (commercial)*12.5</td></tr>
<tr><td></td><td colspan="3">An operational risk weighted asset floor of 12% of total risk weighted assets was applied consistently throughout the reporting period.</td></tr>
<tr><td rowspan="3">Other assets</td><td>Other assets</td><td>100%</td><td>Other assets are risk-weighted at 100%</td></tr>
<tr><td>Deferred tax asset</td><td>250%</td><td>Deferred tax assets related to timing differences are risk-weighted at 250%</td></tr>
<tr><td>Property and equipment</td><td>100%</td><td>Other assets are risk-weighted at 100%</td></tr>
</table>

The following table illustrates the approach used to project available capital.

<table>
<tr><th>Capital designation</th><th>Balance sheet item</th><th>Comment</th></tr>
<tr><td rowspan="3">Common Equity Tier 1 (CET1)</td><td>Ordinary share capital and premium</td><td>Gross consortium capital injection (ZAR10 billion)</td></tr>
<tr><td>Retained earnings</td><td>In a loss position on day 1 and treated as a deduction against capital</td></tr>
<tr><td>Other reserves</td><td>Zero on day 1</td></tr>
<tr><td rowspan="2">Specified CET1 adjustments and deductions</td><td>Goodwill</td><td>Per balance sheet, difference between assets acquired and liabilities issues / assumed</td></tr>
<tr><td>Intangible assets</td><td>Per balance sheet</td></tr>
<tr><td>Additional Tier 1 capital</td><td>None</td><td>Per balance sheet</td></tr>
<tr><td rowspan="2">Gross Tier 2 capital</td><td>Subordinated Debt</td><td>ZAR1.485 billion</td></tr>
<tr><td>General provision (max 1.25% of credit Risk Weighted Assets)</td><td>General credit provisions up to a maximum of 1.25% of credit and counterparty credit risk weighted assets</td></tr>
<tr><td>Specified Tier 2 adjustments and deductions</td><td>None</td><td>Tier 2 instruments are assumed to be Basel III compliant</td></tr>
</table>

A5.8 TAX (OC)

A5.8.1 Deferred administration fees

The origination fees within Good Bank are deferred within the balance sheet and are amortised to the income statement over the term of the loan. It is assumed for tax purposes that origination fees are taxed at the earlier of receipt or accrual. The deferral of origination fees on new loans each month in Good Bank (inflow to the balance sheet) is assumed to be materially consistent in value to the amortisation of such fees on the Good Bank loan book (outflow from the balance sheet). Due to this offset it is assumed that there is no income statement impact and therefore that the tax treatment follows the accounting treatment.

A5.8.2 FV adjustments on advances

The fair value adjustment, which is the premium paid for the loan book over and above the face value, will be regarded as interest for tax purposes in terms of section 24J of the Income Tax Act. Therefore this fair value adjustment is spread over the period of the loan book for tax purposes, using the yield to maturity of the entire book. It is assumed that the accounting interest and the unwind of the fair value adjustment on the acquired loan book will not differ significantly from the tax interest calculated in terms of section 24J. It is assumed that for purposes of calculating the yield to maturity for section 24J that the expected cash flows of the acquired book can be utilised.

A5.8.3 Charge for provision for bad debts

Section 11(j) of the Income Tax Act provides for an allowance on the provision for bad debts. The following deductions/allowance are permitted per the Banking Association of South Africa ruling (on undiscounted numbers): Specific 100%, PSI 80% and IBNR 25%. These allowances should be included in the income statement of the taxpayer in the following year i.e. the allowance should be calculated on the movement of the provision for bad debts.

The splits of the provisions for bad debt used in the forecasts between specific, PSI and IBNR are the actual splits as at March 2015, being 77.5%, 20.6%, and 1.9% respectively. The discount factors applicable in Good Bank during the Base Case Period are assumed to be consistent to that which will be applied in African Bank in the 2014 year of assessment, being 90.9%, 77.5%, and 77.0% respectively.

Applying these deductible factors, provision proportions, and discount factors (and allowing for 0.4% VAT input credits on write-offs) gives an overall weighted average taxable allowance for movements in bad debt provisions of 83%.

A deferred tax asset is raised on the disallowed proportion of the movement in bad debt provisions each period (i.e. on the remaining 17% movement). It is forecast that the non-specific provisions are either utilised or evolve to specific provisions after 12 months.

In calculating the disallowed portion of the movement in bad debt provisions, the forecasts have not adjusted the provision for bad debts associated with the Good Book at the Transaction Effective Date, which for this calculation, is still based on the provisioning as would have been calculated in African Bank. Given that the tax calculations for provisions will be based on the fair value accounting of the Good Book as at the Transaction Effective Date, this assumption results in a more conservative income tax calculation. This assumption does not impact forecast net profits given that forecast deferred tax is aligned with this assumption.

A5.8.4 Operating costs

From a tax perspective, operating expenses of a capital nature are assumed to be immaterial i.e. no material consulting or legal expenses of a capital nature are assumed to be incurred in Good Bank.

A5.8.5 Depreciation of fixed assets and amortisation of intangibles

The fixed assets and software intangible assets within Good Bank are forecast to be depreciated over 48 months. Interpretation Note 47 provides for the following write off periods for tax purposes: furniture - 6 years; office equipment - 3 years; motor vehicles - 4 years; personal computers - 3 years; and self-developed software - 1 year. The impact of the difference between accounting and tax treatment is immaterial. Therefore for tax purposes, fixed assets and intangible assets have been written off over the same period as accounting.

A5.8.6 Tax Rate

The income tax rate is assumed to be 28%.

A5.8.7 Deferred tax on assessable loss

Good Bank is forecast to make sufficient profits in the foreseeable future to utilise assessable losses, therefore deferred tax has been raised on assessable losses where these arise.

A5.8.8 Tax Payments

An entity is required to make an estimate of its taxable income for the year and pay two provisional payments based on this estimate, the first payment six months into the year (i.e. 31 March) and the second payment at year end (i.e. 30 September). An entity only makes provisional payments if it expects to be in a tax paying position at the end of the year (after taking into account any assessed loss from prior years). As such, any accrued tax liabilities are forecast to be paid on 31 March and 30 September each year throughout the projection period.

A5.8.9 Effective tax rate

It is assumed that there are no material permanent differences in Good Bank, except for VAT arising on certain assets on acquisition date (refer to A5.8.11).

A5.8.10 Monthly service fees

The treatment of monthly service fees are assumed to be consistent for accounting and tax purposes.

A5.8.11 VAT

As Good Bank is forecast to have both vatable, as well as non-vatable income, it is assumed to be subject to s17 of the Value-Added Tax Act No. 89 of 1991, which will require it to apply a turnover based methodology to apportion input tax between what is allowed and what is disallowed. At the time of this document, a VAT ruling has not yet been granted. Analysis has shown that the current African Bank apportionment ratio is more conservative than if a turnover based methodology is applied. Therefore, for purposes of the Good Bank forecast financial information, it has been assumed that the apportionment ratio in Good Bank will be the same as that currently evident in African Bank. The resulting disallowed VAT ratio (being 68.42%) has been applied to the forecast vatable portion of the forecast operating expenses to calculate the income statement impact of VAT input disallowed. In addition to this, the number is further adjusted by the impact specific VAT rulings where applicable.

As a result of the sale of the Good Bank Business from African Bank to Good Bank, VAT will become due on the property and equipment, intangibles and goodwill assets being transferred. The recoverable proportion of this VAT charge is assumed to be broadly in line with the split disclosed above, with the balancing irrecoverable value recorded in reserves at Transaction Effective Date and recycled as a charged through the income statement in year one.

A5.9 OTHER SPECIFIC ASSUMPTIONS

The following additional assumptions are made in order to create the above forecast financial statements of Good Bank:

- Good Bank's financial years run from 1 October to 30 September (IC).

- Good Bank will not pay any dividends during the projection period (IC).

- Based on the experience within African Bank, Good Bank capital expenditure on property and equipment will be ZAR9.2 million per month throughout the Base Case Period (IC).

- Good Bank capital expenditure on intangible assets (i.e. IT, software) will be zero throughout the Base Case Period (IC).

- Good Bank property and equipment (excluding land and buildings portion which is discussed in Annexure A5.2.2) will depreciate using the straight line method over 48 months (IC). Those elements of Good Bank intangible assets relating to IT and software will depreciate using the straight line method over 48 months. The brand will be an indefinite life asset with no amortisation (IC).

- The deferred administration fees within Good Bank (relating to portions of upfront fees which are not recognised upon receipt) are static throughout the projection period (IC).

- IFRS 9 will not be early adopted by Good Bank and will be implemented only after the Base Case Period (IC).

Annexure A6

Reporting accountant's report on pro-forma financial information

The Curator
African Bank Limited (under Curatorship)
59 16th Road
Midrand
Johannesburg

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN THE OFFER MEMORANDA

Dear Sir

We have completed our reasonable assurance engagement to report on the compilation of pro forma financial information of African Bank Limited ("the Company") included in the offering information memorandum to debt holders of the company. The pro forma financial information consists of:

- a pro forma statement of financial position at 30 September 2015 for "Good Bank" (Refer to *Annexure A3*); and
- a pro forma statement of profit or loss from 1 October 2014 to 30 September 2015 for "Good Bank" (Refer *Annexure A3*).

The applicable criteria on the basis of which the Curator of the Company ("the Curator") has compiled the pro forma financial information are specified in the JSE Listings Requirements and the United Kingdom Financial Conduct Authority ("FCA") Prospectus Rules and are described in *Annexure A3*.

The Curator intends on entering into a restructuring to form a new entity, Good Bank under which new debt listings will be made under a Domestic Medium Term Note ("DMTN") program and a Euro Medium Term Note ("EMTN") program. As a result, the Curator has prepared pro forma financial information for inclusion in Offer Memoranda to illustrate the impact of the restructuring on the relevant statement of financial position to form Good Bank at 30 September 2015 and on the statement of profit or loss for the period ended as referred to above as if the restructuring had taken place at 1 October 2014. As part of this process, information about the Company's financial position and financial performance has been extracted by the Curator from the Company's financial statements for the year ended 30 September 2015, on which a qualified audit report has been published.

The Curator's Responsibility

The Curator is responsible for compiling the pro forma financial information on the basis of the JSE Listings Requirements and the FCA Prospectus Rules. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the pro forma financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion as required by the JSE Listings Requirements and United Kingdom Listing Authority ("UKLA") about whether the pro forma financial information has been properly compiled by the Curator on the basis of the JSE Listings Requirements and the FCA Prospectus Rules, based on our procedures.

We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the International Auditing and Assurance Standards Board. This standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Curator has properly compiled the pro forma financial information on the basis of the JSE Listings Requirements and the FCA Prospectus Rules.

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

Our firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information. We are not responsible for reporting on any transactions beyond the period covered by our reasonable assurance engagement.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Curator in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the Company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated and in accordance with the JSE Listings Requirements and the FCA Prospectus Rules; and
- such basis is consistent with the accounting policies of “Good Bank”.

Deloitte & Touche
Woodmead, Gauteng

Registered Auditor

Per: Graeme Berry
Partner
29 January 2016

Annexure A7

Reporting accountant's report on forecast financial information of African Bank

The Curator
African Bank Limited (under Curatorship)
59 16th Road
Midrand
Johannesburg

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE FORECAST OF AFRICAN BANK LIMITED

Dear Sir

We have completed our reasonable assurance engagement in respect of the accompanying forecasts of the following set out in the offering information memorandum to debt holders of African Bank Limited:

- Statement of financial position of African Bank Limited at 31 March 2016 and statements of profit or loss for the six months then ending (Refer to *Annexure A4*).

These are referred to as "the forecast information".

We have also completed a limited assurance engagement in respect of the Curator's assumptions used to prepare and present the forecast information, disclosed in the notes to the forecast information.

Curator's Responsibility

The Curator is responsible for the forecast information, including the assumptions set out in *Annexure A4*, on which it is based, and for the financial information from which it has been prepared. This responsibility, arising from compliance with the Listings Requirements of the JSE Limited, includes: determining whether the assumptions provide a reasonable basis for the preparation of the forecast information; whether the forecast information has been properly compiled on the basis stated; whether the forecast information is presented on a basis consistent with the accounting policies of the company in question and the design, implementation and maintenance of internal control relevant to the preparation and presentation of the forecast information on the basis of those assumptions that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibility - Limited Assurance Engagement on the Reasonableness of the Curator's Assumptions

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation and presentation of the forecast information in accordance with the JSE Limited Listings Requirements for forecast information, based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Curator's assumptions provide a reasonable basis for the preparation and presentation of the forecast information in accordance with the JSE Limited Listings Requirements for forecast information.

A limited assurance engagement undertaken in accordance with ISAE 3400 involves assessing the source and reliability of the evidence supporting the Curator's assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity.

The procedures we performed were based on our professional judgement and included inquiries, observations of processes performed, inspection of documents, analytical procedures, evaluating the reasonableness of best-estimate assumptions and agreeing or reconciling with underlying records. Our procedures included evaluating the Curator's best-estimate assumptions on which the forecast information is based for reasonableness.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Curator's assumptions provide a reasonable basis for the preparation and presentation of the forecast information.

Reporting Accountant's Responsibility - Reasonable Assurance Engagement

Our responsibility is to express an opinion based on the evidence we have obtained about whether the forecast information is properly prepared and presented on the basis of the Curator's assumptions disclosed in the notes to the forecast information and in accordance with the JSE Limited Listings Requirements for forecast information. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether such forecast information is properly prepared and presented on the basis of the Curator's assumptions and in accordance with the JSE Limited Listings Requirements for forecast information.

A reasonable assurance engagement in accordance with ISAE 3400 involves performing procedures to obtain evidence that the forecast information is properly prepared and presented on the basis of the assumptions and in accordance with the JSE Limited Listings Requirements for forecast information. The nature, timing and extent of procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, of the forecast information. In making those risk assessments, we considered internal control relevant to African Bank Limited's preparation and presentation of the forecast information.

Our procedures included:

- Inspecting whether the forecast information is properly prepared on the basis of the assumptions;
- Inspecting whether the forecast information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions; and
- Inspecting whether the forecast information is prepared on a consistent basis with the historical financial statements of African Bank Limited, using appropriate accounting policies.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Statement of Limited Assurance and Qualified Opinion

During its financial year ended 30 September 2015, African Bank Limited wrote off in full its portfolio of advances which have been in arrears for an extended period of time (referred to as the "Memorandum Ledger" or "ML book"). African Bank Limited previously recognized the ML book on a partially written off basis at the recoverable amount. The recoverable amount was determined by discounting the estimated future cash flows at the original effective interest rate. The recoverable amount was estimated at R831 million. African Bank Limited has a demonstrated ability and experience in collecting significant cash flows on this portfolio of advances. The recoveries on advances previously written off amounted to R528 million in the year ended 30 September 2015 (2014: R474 million). Given the amount of these post write-off recoveries a full write-down of these advances is not appropriate.

Emphasis of Matter

In the light of recent volatility in the value of the South African Rand, we draw attention to the Curator's assumptions regarding exchange rates and related sensitivities disclosed in note A4.1 of *Annexure A4*. Our statement of limited assurance and our opinion are not modified in respect of this matter.

Qualified Statement of Limited Assurance

Based on the procedures we have performed and evidence we have obtained, except for the effects of the matters described above in the Basis for Qualified Statement of Limited Assurance and Qualified Opinion, nothing has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation of the forecast information.

Qualified Opinion

Based on the procedures we have performed and evidence we have obtained, except for the effects of the matters described above in the Basis for Qualified Statement of Limited Assurance and Qualified Opinion, in our opinion the forecast information is properly prepared on the basis of the assumptions and is presented in accordance with the accounting policies of the company or group in question.

Inherent Limitations

Actual results are likely to be different from the forecast information since anticipated events frequently do not occur as expected and the variation may be material.

Deloitte & Touche
Woodmead, Gauteng

Registered Auditor

Per: Graeme Berry
Partner

29 January 2016

Annexure A8

Reporting accountant's report on forecast financial information of Good Bank

The Curator
African Bank Limited (under Curatorship)
59 16th Road
Midrand
Johannesburg

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE FORECAST OF GOOD BANK

Dear Sir

We have completed our reasonable assurance engagement in respect of the accompanying forecasts of the following set out in the offering information memorandum to debt holders of African Bank Limited:

- Statements of financial position of "Good Bank" at 30 September 2016, 30 September 2017 and 30 September 2018 and statements of profit or loss and cash flows for the periods and years then ending (Refer to *Annexure A5*).

These are referred to as "the forecast information".

We have also completed a limited assurance engagement in respect of the Curator's assumptions used to prepare and present the forecast information, disclosed in the notes to the forecast information.

Curator's Responsibility

The Curator is responsible for the forecast information, including the assumptions set out in *Annexure A5*, on which it is based, and for the financial information from which it has been prepared. This responsibility, arising from compliance with the Listings Requirements of the JSE Limited, includes: determining whether the assumptions provide a reasonable basis for the preparation of the forecast information; whether the forecast information has been properly compiled on the basis stated; whether the forecast information is presented on a basis consistent with the accounting policies of the company in question and the design, implementation and maintenance of internal control relevant to the preparation and presentation of the forecast information on the basis of those assumptions that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibility - Limited Assurance Engagement on the Reasonableness of the Curator's Assumptions

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation and presentation of the forecast information in accordance with the JSE Limited Listings Requirements for forecast information, based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Curator's assumptions provide a reasonable basis for the preparation and presentation of the forecast information in accordance with the JSE Limited Listings Requirements for forecast information.

A limited assurance engagement undertaken in accordance with ISAE 3400 involves assessing the source and reliability of the evidence supporting the Curator's assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity.

The procedures we performed were based on our professional judgement and included inquiries, observations of processes performed, inspection of documents, analytical procedures, evaluating the reasonableness of best-estimate assumptions and agreeing or reconciling with underlying records. Our procedures included evaluating the Curator's best-estimate assumptions on which the forecast information is based for reasonableness.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Curator's assumptions provide a reasonable basis for the preparation and presentation of the forecast information.

Reporting Accountant's Responsibility - Reasonable Assurance Engagement

Our responsibility is to express an opinion based on the evidence we have obtained about whether the forecast information is properly prepared and presented on the basis of the Curator's assumptions disclosed in the notes to the forecast information and in accordance with the JSE Limited Listings Requirements for forecast information. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether such forecast information is properly prepared and presented on the basis of the Curator's assumptions and in accordance with the JSE Limited Listings Requirements for forecast information.

A reasonable assurance engagement in accordance with ISAE 3400 involves performing procedures to obtain evidence that the forecast information is properly prepared and presented on the basis of the assumptions and in accordance with the JSE Limited Listings Requirements for forecast information. The nature, timing and extent of procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, of the forecast information. In making those risk assessments, we considered internal control relevant to African Bank Limited's preparation and presentation of the forecast information.

Our procedures included:

- Inspecting whether the forecast information is properly prepared on the basis of the assumptions;
- Inspecting whether the forecast information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions; and
- Inspecting whether the forecast information is prepared on a consistent basis with the historical financial statements of African Bank Limited, using appropriate accounting policies.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

We draw attention to the assumption that the nominal value of the Good Bank's liabilities equates to their fair value at 31 March 2016 and the disclosure set out in this regard in paragraph A5.2.5 of *Annexure A5*. Our statement of limited assurance and our opinion are not modified in respect of this matter.

In the light of recent volatility in the value of the South African Rand, we draw attention to the Curator's assumptions regarding exchange rates and related sensitivities disclosed in note A5.6.4 of *Annexure A5*. Our statement of limited assurance and our opinion are not modified in respect of this matter.

Statement of Limited Assurance

Based on the procedures we have performed and evidence we have obtained, nothing has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation of the forecast information.

Opinion

Based on the procedures we have performed and evidence we have obtained, in our opinion the forecast information is properly prepared on the basis of the assumptions and is presented in accordance with the expected accounting policies of the company in question.

Inherent Limitations

Actual results are likely to be different from the forecast information since anticipated events frequently do not occur as expected and the variation may be material.

Deloitte & Touche
Woodmead, Gauteng

Registered Auditor

Per: Graeme Berry
Partner

29 January 2016

Annexure A9

Reporting accountant's report on projected financial information of African Bank

The Curator
African Bank Limited (under Curatorship)
59 16th Road
Midrand
Johannesburg

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE PROJECTIONS OF AFRICAN BANK LIMITED

Dear Sir

We have completed our reasonable assurance engagement in respect of the following set out in the offering information memorandum to debt holders of African Bank Limited:

- Cash realisation of African Bank Limited in a liquidation scenario (Refer to *Annexure B*); and
- Cash realisation of the run-off of "bad book / residual bank" (Refer to section 5).

Collectively these are referred to as "the projections."

We have also completed a limited assurance engagement in respect of the Curator's assumptions used to prepare and present the projections, disclosed in the notes to the projections.

Curator's Responsibility

The Curator is responsible for the projections, including the assumptions set out in *Annexure B and Section 5*, on which it is based, and for the financial information from which they have been prepared. This responsibility, arising from compliance with the Listings Requirements of the JSE Limited, includes: determining whether the assumptions provide a reasonable basis for the preparation of the projections; whether the projections have been properly compiled on the basis stated; whether the projections are presented on a basis consistent with the accounting policies of the company in question and the design, implementation and maintenance of internal control relevant to the preparation and presentation of the projections on the basis of those assumptions that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibility - Limited Assurance Engagement on the Reasonableness of the Curator's Assumptions

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation and presentation of the projections in accordance with the JSE Limited Listings Requirements for projected financial information, based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Curator's assumptions provide a reasonable basis for the preparation and presentation of the projections in accordance with the JSE Limited Listings Requirements for projections.

A limited assurance engagement undertaken in accordance with ISAE 3400 involves assessing the source and reliability of the evidence supporting the Curator's assumptions. Sufficient appropriate evidence supporting best estimate assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. When hypothetical assumptions are used, significant implications of such assumptions have been taken into consideration. Although evidence supporting hypothetical assumptions was not be obtained, we consider whether they are consistent with the purpose of the projections and that there is no reason to believe they are clearly unrealistic.

The procedures we performed were based on our professional judgement and included inquiries, observations of processes performed, inspection of documents, analytical procedures, evaluating the reasonableness of best-estimate assumptions and agreeing or reconciling with underlying records. Our procedures included evaluating the Curator's best-estimate assumptions on which the projections are based for reasonableness.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Curator's assumptions provide a reasonable basis for the preparation and presentation of the projections.

Reporting Accountant's Responsibility - Reasonable Assurance Engagement

Our responsibility is to express an opinion based on the evidence we have obtained about whether the projections are properly prepared and presented on the basis of the Curator's assumptions disclosed in the notes to the projections and in accordance with the JSE Limited Listings Requirements for projections. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether such projections are properly prepared and presented on the basis of the Curator's assumptions and in accordance with the JSE Limited Listings Requirements for projections.

A reasonable assurance engagement in accordance with ISAE 3400 involves performing procedures to obtain evidence that the projections are properly prepared and presented on the basis of the assumptions and in accordance with the JSE Limited Listings Requirements for projections. The nature, timing and extent of procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, of the projections. In making those risk assessments, we considered internal control relevant to African Bank Limited's preparation and presentation of the projections.

Our procedures included:

- Inspecting whether the projections are properly prepared on the basis of the assumptions;
- Inspecting whether the projections are properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions; and
- Inspecting whether the projections are prepared on a consistent basis with the historical financial statements of African Bank Limited, using appropriate accounting policies.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Limited Assurance

Based on the procedures we have performed and evidence we have obtained, nothing has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation of the projections, assuming the hypothetical assumptions described in *Annexure B* and *Section 5*.

Opinion

Based on the procedures we have performed and evidence we have obtained , in our opinion the projections are properly prepared on the basis of the assumptions and are presented in accordance with the accounting policies of African Bank Limited.

Inherent Limitations

Actual results are likely to be different from the projections since anticipated events frequently do not occur as expected and the variation may be material.

The projections have been prepared for the purpose of complying with the Listings Requirements of the JSE Limited and for inclusion in the offering memorandum to debt holders of African Bank, using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that the projections should not be used for purposes other than that described.

Deloitte & Touche
Woodmead, Gauteng

Registered Auditor

Per: Graeme Berry
Partner

29 January 2016

Annexure B

Liquidation analysis

This is Annexure B to the Offer Information Memorandum.

1 Introduction

This Annexure B details the projected potential outcome for creditors of African Bank if the Restructuring is not implemented and:

(i) the loan assets are realised through a managed collection and run-off process ("**MRO**") in liquidation or under continued Curatorship, followed by a disposal of any portion of the book remaining after approximately 4 years ("**MRO Scenario**"); or

(ii) the Bank is liquidated and the loan assets are disposed of within a relatively short period following liquidation (assumed as 12 months for purposes of the analysis) ("**Disposal Scenario**").

The analysis is based on these two absolute scenarios so that a potential projected range of outcomes can be illustrated. In practice, it is possible that a combination of the two scenarios could materialise and that the potential outcome may fall anywhere within the range projected.

The analysis projects the outcome of the MRO Scenario and the Disposal Scenario as at an illustrative liquidation or MRO date ("**Liquidation/MRO Date**") of 1 April 2016. This is the same illustrative date used as the projected Transaction Effective Date in the Base Case Projections to anticipate the outcome of the Restructuring. Please note that 1 April 2016 is selected purely for illustrative purposes based on the financial information prepared by the Curator as at the date of this Offer Information Memorandum. The actual Transaction Effective Date or Liquidation/MRO Date may occur after 1 April 2016.

The Curator is responsible for the preparation of the liquidation analysis, including the assumptions on which it is based, and for the financial information from which it has been prepared. This responsibility arises in compliance with the Listings Requirements of the JSE Limited.

2 MRO under continued Curatorship or in liquidation

If the Restructuring does not proceed, and no alternative restructuring approach is adopted, then it is likely that SARB will announce to the market that the business of African Bank will be discontinued and that a process will be commenced to recover and realise the remaining assets for distribution to creditors.

The legal regime in terms of which the MRO is implemented (i.e. Curatorship or liquidation) may introduce different technical and legal requirements, challenges and strategic advantages.

For purpose of the analysis presented in this Annexure B, it is assumed that the reaction of staff, customers, suppliers and contractors of African Bank to such an announcement will be largely the same, regardless of whether the winding-down process will be implemented under continued Curatorship or in liquidation (OC).

As a result, this Annexure B analyses the MRO Scenario without distinguishing between an MRO in liquidation and an MRO under Curatorship. Likewise, where reference is made in this Annexure B to a liquidator, the reference is intended, where the context allows, to include a Curator who may be implementing the asset realisation process if an MRO under Curatorship is pursued.

It should be noted that if African Bank remains under Curatorship, it may be more challenging to implement a combination of disposal and collection strategies because any disposals outside the ordinary course of business would require consent from the Minister and/or the Registrar of Banks in terms of the Banks Act.

3 Subject to assumptions and illustrative in nature

The assumptions made and applied in the preparation of the analysis of the two scenarios are considered by the Curator to be the more material and significant assumptions. These assumptions are not exhaustive, nor are they intended to be. In the view of the Curator, the assumptions disclosed in this Annexure B are significant to the projected outcomes because they relate to key factors that will impact upon the outcome of a Disposal Scenario or an MRO Scenario. Assumptions and projections are uncertain and subjective in nature and the actual outcome of the two scenarios may differ from the projections included in this Annexure B. Although the Curator regards the assumptions as reasonable based on the information available to him, no warranties or representations in respect of the accuracy of the assumptions used in the Annexure B are made or given. You should form your own view, and obtain advice in this regard if appropriate, in respect of the accuracy and reliability of the analysis contained in this Annexure B.

Assumptions have been categorised, as appropriate as follows and presented in brackets where relevant:

- IC – Inside management's control, being those assumptions in respect of which management can exercise some level of influence

- OC – Outside management's control, being those assumptions that are exclusively outside of management's influence

Assumptions are based on management expectations relating to scenarios of future events and the actions management expects to be taken in such scenarios, but are hypothetical in nature given the circumstances, as described hereafter.

The operational steps assumed below as possible actions that may be taken by a liquidator or Curator after the Liquidation/MRO Date are merely illustrative in nature. The Curator has not yet made any decisions or decided on a specific run-off strategy and in particular the staffing and operational requirements of that strategy after the Liquidation/MRO Date.

4 Different asset realisation strategies

Closure and wind-down of the African Bank business will be complex and the financial outcome will be dependent on numerous variables that cannot be predicted accurately in advance. The asset realisation strategy adopted to realise and collect assets will have a material impact on the financial outcome of the process. In addition to cash, the largest asset in African Bank will be the net advances book ("**NAB**"). There will also be some intra-group receivables and other assets, which are not significant in nature but that are discussed below.

Potential NAB realisation strategies include: (i) one or a series of multiple portfolio disposals; (ii) an MRO; or (iii) a combination of portfolio disposal and collection strategies.

Given the projected size of African Bank's NAB as at an illustrative Liquidation/MRO Date of 1 April 2016 (3.5 – 4.5 million accounts with a projected net value of approximately ZAR24.9 billion - see opening position in paragraph 6 below), a liquidator might pursue a combination of these strategies because the size of the NAB may be too large for a single purchaser to acquire, while an MRO of the entire NAB (i.e. without sales of parts of the NAB) is likely to take many years to complete.

On the other hand, given the risks in a protracted run-off (e.g. staff attrition, increasing cost of collection) a liquidator may seek to mitigate these risks by minimising the period required to realise assets. A liquidator may therefore prefer an accelerated asset disposal strategy over an MRO because of the inherent longer term risks of implementing an MRO strategy.

It is expected in both the Disposal Scenario and the MRO Scenario that the liquidator will face numerous practical and legal challenges (including potential protracted litigation), and that the relevant strategy may be more difficult to implement than expected at inception.

As it is difficult to predetermine which loans would be sold and which ones would be collected, this Annexure B presents an illustrative set of assumptions and shows the projected financial outcome of pursuing each of the two scenarios in isolation.

Challenges: Disposal Scenario

In the Disposal Scenario, the liquidator may face the following challenges:

- it may be difficult for potential buyers to service the loans after purchase and this may affect their appetite to acquire the NAB. The book size is believed to be too large for local investors to absorb into their operations;

- the local investors who are experienced in loan book acquisition may potentially lack the balance sheet for this size of transaction;

- there may be a limited buyer population as it is anticipated that buyers would primarily come from the local market. International investors will need a rationale to buy the book (i.e. as an entry point into the South African market). International buyers are also likely to require a significant return considering the risk profile of the book in combination with the cost of managing Rand currency volatility; and

- a purchaser would need to hold an NCR licence. Currently, only a limited number of companies hold such licences in South Africa.

Notwithstanding the challenges listed above, various expressions of interest by local and international investors to buy the NAB have been received by the Curator to date. However, none of these expressions have led to meaningful further discussions. It is expected in the circumstances that the pool of investors will come down to a few local funds and the consortium banks and while it assumed a recovery of 20%, as per below, it could well be less.

Challenges: MRO Scenario

The MRO Scenario on the other hand would also present numerous risks. These would include internal operational risks as well as potentially uncontrollable external risks. It is particularly important for a successful MRO: (i) that the payment behaviour of customers are not adversely affected; (ii) that a suitably experienced and motivated workforce is maintained and (iii) that the macro-economic environment remains stable over the duration of the MRO. Once it is announced that African Bank will cease its trading activities and that its business is subject to a winding-up, it may be very difficult to retain a motivated core recoveries team and it is likely that collections will deteriorate as a result of changed customer behaviour.

5 Summarised comparison of scenarios

The projected potential outcome of the Disposal Scenario and the MRO Scenario as at an illustrative Liquidation/MRO Date of 1 April 2016 is reflected in the table below:

		Recovery	
ZAR millions	**Opening Book Value 1st April 2016**	**Disposal Scenario**	**MRO scenario**
Net Advances Book	24 936	8 250	30 670
Cash	19 677	19 677	19 677
Investment in InsureCo	152	152	152
Intergroup loans	-	402	402
Fair Value Asset - Funding Hedges	-	-	-
Other assets	3 630	3 328	3 328
Total Assets	**48 395**	**31 809**	**54 229**
Less: Costs of the liquidation			
Operating costs	NA	(3 091)	(6 220)
Restructuring cost	NA	-	-
Final termination / closure costs	NA	(1 000)	(1 000)
Total costs of liquidation	**-**	**(4 091)**	**(7 220)**
Interest income		**2 410**	**3 916**
Cash available to distribute		**30 128**	**50 925**
Cash available to distribute - discounted at	**9.3%**	**26 688**	**42 323**
Senior debt / Unsecured creditors		**53 180**	**53 180**
- Recovery		(26 688)	(42 323)
- Unpaid		26 492	10 857
Recovery percentage		*50%*	*80%*
Subordinated debt		**5 306**	**5 306**
- Recovery		-	-
- Unpaid		5 306	5 306
Recovery percentage		*0%*	*0%*

As depicted in the table above, the projected net present value return for Senior Funders is 50% in the Disposal Scenario and 80% in the MRO Scenario. It is not reasonably anticipated that Subordinated Funders will recover any return in either of the two scenarios. The 80% recovery assumes the ability to maintain a stable platform, with only moderate stress applied to the portfolio, and the end outcome could be materially less.

In both the Disposal Scenario and the MRO Scenario, the projected outcome for Senior Funders and Subordinated Funders, based on the various assumptions stated below, is worse than the estimated outcome under the Restructuring. Upon implementation of the Restructuring, Senior Funders will acquire New Senior Debt Instruments (together with a Coupon Service Payment in the case of Serviced Instruments) which equates broadly to 80% of their claims against African Bank together with a Senior Cash Payment equivalent to 10% of their claims, an overall recovery of 90%. Subordinated Funders are not expected to make any recovery if an MRO or liquidation is pursued, whereas New Subordinated Debt Instruments and/or New HoldCo Shares (ZAR 1.485 billion) and cash (ZAR165 million) will be offered to them (Subordinated Cash Payment) in terms of the Restructuring.

The most significant realisations in liquidation or MRO (excluding existing cash balances) are from the NAB, which is projected to realise ZAR8.3 billion in the Disposal Scenario and ZAR30.7 billion in the MRO Scenario. Costs in both scenarios include significant staff costs to manage collections up until disposal, or through the life of the loans in the MRO Scenario, liquidator's and legal fees, statutory bonding costs in a liquidation scenario and other costs incurred in managing the closure of African Bank.

The estimated accumulated tax loss as at 2015 is assumed to be sufficient to shield any taxable income / reversing temporary differences for all subsequent tax periods.

The cash available for distribution has been discounted to present value to reflect an outcome which is comparable with the anticipated outcome of the Restructuring, based on an illustrative Transaction Effective Date of 1 April 2016. A discount rate of 9.3% has been used, being the blended rate that will apply to the New Debt Instruments, including swap costs (IC).

The analysis assumes that 75% of free cash remaining at the end of each year (i.e. cash minus known future costs) is distributed at each anniversary of the Liquidation/MRO Date, and that the remaining 25% of free cash is retained on a rolling basis to cover un-agreed and unknown claims that may arise up until finalisation of the process (i.e. Year 5). Any free cash retained and not utilised to discharge unknown costs and claims will be distributed as part of the final distribution. This effectively means that in a Disposal Scenario, roughly ZAR22 billion is distributed at the end of year one while the rest is distributed over the remaining four years (IC).

6 Opening position on Liquidation/MRO Date

This paragraph 6 clarifies the manner in which the opening financial position of African Bank as at an illustrative Liquidation/MRO Date of 1 April 2016 has been determined.

6.1 Forecast balance sheet as at Liquidation/MRO Date

The balance sheet as at the Liquidation/MRO Date is based on the forecast African Bank balance sheet as at 31 March 2016 (see Annexure A4). The book value of the assets in liquidation ("**LBV**") is then determined, as at the Liquidation/MRO Date, as follows:

- the NAB has been projected based on how the book is expected to evolve up to 31 March 2016 and applying the revised provisioning policies (introduced in July 2015) against this projection;

- cash has been projected up to 31 March 2016 (see Annexure A4) and is assumed to accumulate as a result of continued trading / collections with the suspension of interest and principal payable to Senior Funders and Subordinated Funders (OC);

- interest on African Bank's debt is assumed to accrue and to be capitalised on the Liquidation/MRO Date (OC); and

- other balance sheet non-funding liabilities and Hedging Arrangements concluded during Curatorship are assumed to be settled immediately prior to the Liquidation/MRO Date (IC).

The projected opening balance sheet of African Bank as at an illustrative Liquidation/MRO Date of 1 April 2016 is as follows:

ZAR million	Balance Sheet 1 April 2016	Adjustment	OBV 1 April 2016
Assets			
Net Advances Book	24 936	-	24 936
Cash	20 769	(1 092)	19 677
Intergroup loans	-	-	-
Fair value hedge assets	5 823	(5 823)	-
Investment in InsureCo	152	-	152
Other assets	3 630	-	3 630
Total Assets	**55 310**	**(6 915)**	**48 395**
Other liabilities and taxation			
Fair value hedge liabilities	32	(32)	-
Other liabilities	610	(610)	-
	642	**(642)**	**-**
Funding Liabilities			
Retail depositors	109	(109)	-
Senior debt	53 180	-	53 180
Collateral liability	4 993	(4 993)	-
Subordinated debt	5 306	-	5 306
Total Liabilities	**64 230**	**(5 744)**	**58 486**
Net Asset / Shareholders Equity	**(8 920)**	**(1 171)**	**(10 091)**

6.2 Cash balance at the Liquidation/MRO Date

The assumed cash balance has been forecast up until 31 March 2016 based on trading experience during the period of Curatorship and forward calculations of known items:

- the cash balance forecast for African Bank as at 31 March 2016 was used as the opening position for the liquidation analysis (see Annexure A4) (OC);
- all Retail Deposits are assumed to be repaid in full before the Liquidation/MRO Date – at the end of September 2015, the Retail Deposit balance was ZAR109 million (IC);
- the estimated trading liabilities (i.e. other than funding liabilities) as at the Liquidation/MRO Date are assumed at ZAR610 million as set out in the table following (OC):

ZAR million	OBV
Insurance premium liability	(186)
Sundry creditors and accruals	(363)
Advances with credit balances	(46)
VAT accrual	(15)
Curatorship Creditors	**(610)**

- It is assumed that these trading liabilities are repaid in the ordinary course immediately before the Liquidation/MRO Date (IC);

- insurance premiums due to the Good Bank Cell or Stangen are assumed to be paid in full on all applicable loans before the Liquidation/MRO Date. It is further assumed that the liquidator will cease paying premiums to the Good Bank Cell or Stangen at CD1 – i.e. as soon as a customer defaults on any payment obligation (IC); and

- similarly, it is assumed the Curator will terminate and settle the Hedging Arrangements before the Liquidation/MRO Date, with an assumed estimated 20% termination cost of the gross value of the hedge assets/liabilities. It is assumed that the net hedge termination payment will amount to ZAR373 million. It should be noted that the cash received in relation to the short-term collateral liabilities is included within the opening cash of ZAR19 677 million (IC).

ZAR million	**OBV**	**Termination Cost**	**Net**
Fair value hedge assets	5 823	(1 165)	4 658
Fair value hedge liabilities	(32)	(6)	(38)
Short-term collateral liabilities	(4 993)	-	(4 993)
Net position	**798**	**(1 171)**	**(373)**

6.3 Senior and subordinated funding liabilities (i.e. Existing Debt Instruments)

Although interest and principal repayments were suspended by the Curator during Curatorship, interest continued to accrue on the Existing Debt Instruments. At the Liquidation/MRO Date, accrued but unpaid interest will be capitalised and treated as a claim of the creditor for the purposes of receiving a liquidation dividend. Foreign denominated debt claims that are proven will be subject to conversion to South African Rand on the assumed Liquidation/MRO Date.

For purposes of the analysis, interest has been accrued on the Existing Debt Instruments up to the Liquidation/MRO Date using the actual rates payable to counterparties. The liquidation book value of the funding liabilities is set out below.

ZAR million	**OBV**
Senior debt liabilities at 1st April 2016	47 075
Accrued interest at 1st April 2016	6 105
Expected creditor claims	-
Total senior creditors	**53 180**

ZAR million	**OBV**
Subordinated debt liabilities at 1st April 2016	4 388
Accrued interest at 1st April 2016	918
Total subordinated creditors	**5 306**

7 Disposal Scenario: Projected cash flow analysis

Based on the opening position explained in paragraph 6 above and the various assumptions reflected throughout this Annexure B, the projected cash flow analysis in a Disposal Scenario over a five year period ending in Year 5 is as follows:

Cash Flow (Disposal) (ZAR million)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Opening Cash	19 677	8 723	3 048	1 159	406	19 677
Collections	8 250	-	-	-	-	8 250
Recovery on assets:						
Statutory assets	3 162	-	-	-	-	3 162
Intergroup loans	-	402	-	-	-	402
Investment in InsureCo	152	-	-	-	-	152
Sundry Debtors	-	-	-	-	-	-
SARS Tax Debtor	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property and equipment	166	-	-	-	-	166
Total recovery on assets						31 809
Opex	(2 591)	(250)	(150)	(100)	-	(3 091)
Restructuring cost	-	-	-	-	-	-
Final termination / closure costs	-	(250)	(250)	(250)	(250)	(1 000)
Subtotal	28 816	8 625	2 648	809	156	27 718
Interest	1 578	565	185	64	18	2 410
Total	30 394	9 190	2 833	873	174	30 128
Distribution	(21 671)	(6 142)	(1 674)	(467)	(174)	(30 128)
Closing cash	8 723	3 048	1 159	406	-	-

Distribution (discounted at 9.3% pa)	19 827	5 141	1 282	327	111	26 688

The Disposal Scenario assumes a more rapid disposal of the NAB, involving one or a series of smaller disposals over a period of 12 months following the Liquidation/MRO Date (IC). This is expected to result in a lower overall amount recovered, but also lower costs and potentially less uncertainty and risk. A single sale of the entire book is considered unlikely as a result of the challenges discussed in paragraph 4 above. The Disposal Scenario is more likely to comprise of a series of smaller portfolio disposals, categorised to match investor appetite.

The key underlying assumptions used in the projected cash flow analysis for the Disposal Scenario are as follows:

- it is assumed that the total amount realised upon disposal (including any interim collections during the period leading up to disposal) equals 20% of gross book value (excluding the written off book). The gross book is projected to be ZAR41.3 billion as at the illustrative Liquidation/MRO Date of 1 April 2016 and therefore the Disposal Scenario assumes total realisation proceeds of ZAR8.3 billion. While collections would continue during the 12 month period from liquidation up to sale, any such collections are included in the projected ZAR8.3 billion total realisation proceeds (OC);

- disposal proceeds are received in March 2017 (one year after liquidation) (OC);

- operations and operational costs are assumed to equate exactly to the MRO Scenario up to disposal of the NAB at the end of March 2017 (IC). Please refer to the table below for more detail about the operating costs projected for the Disposal Scenario, which table must be read with paragraph 9.3 below which explains the manner in which operating costs for both scenarios have been determined; and

- after disposal of the NAB, a further ZAR1.0 billion of termination costs is assumed (OC). As discussed in more detail in paragraph 9.3 below, this amount is intended to cover any unforeseen litigation costs, claims, and liabilities, as well as the general costs associated with the termination and closing down of the bank (including termination or exit penalties that may become payable to contractors, suppliers and landlords). Any portion of this ZAR1.0 billion contingency that is not required will increase the amount of cash distributable to creditors.

The table below reflects the various costs projected for the Disposal Scenario over a five year period up until March 2021 (please refer to paragraph 9.3 below for more detail about these costs):

Disposal ZAR million	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Staff costs						
CVP	449	-	-	-	-	449
Collections	287	-	-	-	-	287
Group Functions	306	-	-	-	-	306
Total staff costs	**1 042**	**-**	**-**	**-**	**-**	**1 042**
Collections - Non Staff						
Bank charges	75	-	-	-	-	75
Collections Legal Fees	76	-	-	-	-	76
Direct collections costs	130	-	-	-	-	130
Communications costs	42	-	-	-	-	42
Other	84	-	-	-	-	84
CVP - Non Staff		-	-	-	-	
Branch Property	143	-	-	-	-	143
Branch IT	57	-	-	-	-	57
Transactional costs	93	-	-	-	-	93
Communication	50	-	-	-	-	50
Other	18	-	-	-	-	18
Liquidator, Legal & Bonding	500	250	150	100	-	1 000
Other	281	-	-	-	-	281
Subtotal	**2 591**	**250**	**150**	**100**	**-**	**3 091**
Final termination costs	-	250	250	250	250	1 000
Total	**2 591**	**500**	**400**	**350**	**250**	**4 091**

8 MRO Scenario: Projected cash flow analysis

Based on the opening position explained in paragraph 6 above and the various assumptions reflected throughout this Annexure B, the projected cash flow analysis in an MRO Scenario is as follows:

Cash Flow (MRO) (ZAR million)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Opening Cash	19 677	12 052	7 367	4 580	2 838	19 677
Collections	12 221	7 383	5 161	3 402	2 503	30 670
Recovery on assets:						
Statutory assets	3 162	-	-	-	-	3 162
Intergroup loans	-	402	-	-	-	402
Investment in InsureCo	152	-	-	-	-	152
Sundry Debtors	-	-	-	-	-	-
SARS Tax Debtor	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property and equipment	-	83	-	-	83	166
Total recovery on assets						54 229
Opex	(2 591)	(1 334)	(1 176)	(1 119)	-	(6 220)
Restructuring cost	-	-	-	-	-	-
Final termination / closure costs	-	-	-	-	(1 000)	(1 000)
Subtotal	32 621	18 586	11 352	6 863	4 424	47 009
Interest	1 702	997	609	372	236	3 916
Total	34 323	19 583	11 961	7 235	4 660	50 925
Distribution	(22 271)	(12 216)	(7 381)	(4 397)	(4 660)	(50 925)
Closing cash	12 052	7 367	4 580	2 838	-	-

Distribution (discounted at 9.3% pa)	20 376	10 226	5 653	3 081	2 987	42 323

A long term MRO (whether in liquidation or continued Curatorship) is likely to maximise loan book collections, albeit at lower levels to what might be expected under normal trading conditions. The recovery is anticipated to be worse than under normal trading conditions due to the assumed impact that the announcement of African Bank's closure and winding-up will have on customer payment behaviour, staff and third party suppliers and contractors. As mentioned earlier, the Curator believes that the reaction of customers, staff and suppliers to such an event will be largely the same regardless of the legal regime under which the MRO will be implemented (i.e. Curatorship or liquidation). Whether a Curatorship or liquidation will be preferred will largely depend on practical, legal or strategic benefits that one process may have over the other, which decision will be subject to the direction of the Register of Banks.

To assess the potential impact of African Bank's closure and winding-up on collections, it would have been helpful if the Curator could have had reference to the impact of other liquidations and/or closures of businesses that have been implemented under similar circumstances. There are however few, if any, such examples that can be used as guidance to project the impact of African Bank's closure and winding-up. Domestically, perhaps the most comparable situation was the failure of Saambou Bank in 2002, but Saambou Bank was never placed in liquidation (portions of its loan book were collected and portions were disposed of to other South African banks). Internationally, the banks that have failed have tended to have very different asset portfolios (i.e. not solely unsecured retail loans in the middle and lower income markets) and the impact on customer behaviour in the international market would not be an accurate benchmark.

The level of stress on collections is expected to be severe in the initial stages after the Liquidation/MRO Date but it is assumed that collections will recover (albeit not to normal trading levels) as operations are stabilised. Accordingly, in estimating the potential collections from the loan book in a MRO Scenario, we have applied additional monthly default “roll” over and above ordinary “roll” rates, as set out in the table below. By way of example, it has been assumed that an additional 10.0% of customers do not pay their loans in April 2016 and therefore “roll” into the next lower status category

(OC). Based on African Bank's historic information, collection levels fall at lower CD status levels, so by applying this "roll" stress, collections are reduced. It should be noted that the assumed additional monthly defaults are for illustrative purposes only and actual additional defaults rates may be different, perhaps materially.

Additional defaults post-liquidation	**%**
April 2016	10.0
May 2016	10.0
June 2016	7.5
July 2016	3.5
August 2016	2.5
September 2016	1.7
October 2016	1.2
November 2016	0.8
December 2016	0.6
January 2017	0.4
February 2017	0.2

There will be significant disruption to the business when the MRO commences because it will signal the end of the African Bank business as a going concern. The terms managed run-off, closure and liquidation are widely understood by the general public as the end of a business and have negative connotations for a company's customers, suppliers and employees. It is assumed that the customer population will not attach much significance to the technical difference between an MRO in Curatorship and one in liquidation and as such, customers are expected to generally treat the Bank as being "in liquidation" once it ceases to trade and branches and communication channels are close down. Experience in all industries (including banking) indicates that recoveries from a debtor book deteriorates upon MRO or liquidation.

If the MRO is implemented in liquidation, a provisional liquidator will be appointed by the Master of the High Court and would typically hold office for a period of several months before the creditors vote on the appointment of a final liquidator. A provisional liquidator has limited powers and would almost certainly apply to court to extend these powers. However, this can only be done after the provisional liquidator's appointment and therefore some lack of leadership at least in the initial period after appointment is inevitable in a liquidation scenario.

The two main factors that will adversely impact loan book collections upon closure and winding-up of the business are: (i) disruption of operations; and (ii) changes in customers' payment behaviour.

<u>Operational disruption</u>

Impact on staff

To maintain collections and support of IT systems for a successful MRO, it is critical to retain key employees. The reaction of staff to the announcement that the Restructuring will not proceed and that the business will be closed down in terms of an MRO cannot be precisely modelled, but key staff are more likely to find alternative employment quickly. Loss of key staff will impact adversely on the ability to carry on critical operations. Staff turnover nearly doubled post-Curatorship despite the potential continuation of the business in Good Bank and an even greater degree of attrition could be expected if the Bank ceases to trade and an MRO is pursued.

All staff will be concerned about being paid during an MRO and they will typically require some certainty about the prospects for continued employment. Staff may refuse to work without salary guarantees (particularly highly unionised staff as is the case for African Bank). If the MRO is implemented in liquidation, it might be very difficult for a provisional liquidator or liquidator to provide guarantees in this respect on appointment. Even if guarantees were provided, employees may demand incentives to compensate them for the lack of certainty. It is for this reason that increases and incentive bonuses are assumed in the Operating Cost Model discussed in paragraph 9.3 below.

In practice, it would be extremely difficult for a provisional liquidator to agree incentive plans and significant additional cost may be incurred to retain the goodwill of employees.

Supplier and service provider disruptions

Many of African Bank's supplier contracts contain automatic or discretionary termination clauses that come into effect prior to liquidation. Even if a provisional liquidator were able to agree trading terms, negotiations may take time during which services from third parties may be suspended. Turning services "back on" may not be immediate and as collections are heavily dependent on service contracts, such as the IT systems required to drive call centre work requests, any hiatus in this regard may lead to a material deterioration in collection performance.

African Bank does not provide its customers with current accounts and as such, African Bank has to run debit/strike orders under bilateral arrangements with other banks to make collections on its loans. These bilateral agreements contain termination clauses in the event of liquidation. As such, it is reasonable to assume some loss of collections ability in the event of African Bank's liquidation and potential re-pricing of such services prior to reinstatement.

Customer payment behaviour

When customers learn that a company to which they owe money has ceased to trade and is being wound-up, they typically tend to be more likely to default on their payment obligations. The reasons for this include:

- customers may have no desire to maintain a relationship with the company in MRO and accordingly reduce the priority previously placed on repayment of the debt. This is highly likely to impact African Bank, where it is assumed that no further loans will be disbursed after the Liquidation/MRO Date;

- some customers genuinely believe that because the company is in liquidation, the obligation to pay outstanding debts no longer exists. As mentioned above, it is quite possible that the general customer population will not distinguish between an MRO in liquidation or under continued Curatorship and they may treat the Bank as being "liquidated" regardless of the legal framework in which the MRO is implemented**;** and

- some customers deliberately attempt to avoid payment believing that once a business is being closed down, it is less likely to follow up on the debt due. In addition with no new lending there is less opportunity for customers to roll over or take new loans.

There is no reason to assume African Bank's customers, who mainly represent the lower income population in South Africa, would respond differently to a closure or winding-up of African Bank than customers do in most instances of insolvency. As a result, it is reasonable to assume some level of stress to the current level of loan collections as a result of a change in customer payment behaviour. A lower rate of recovery would apply to the defaulted book and the time period for collection would also be extended. However the high rate of interest on the loans would more than offset the discount rate applied in assessing present value.

The impact of the assumed increase in default rates resulting from African Bank's closure and winding-up is projected to reduce the absolute value of collections by ZAR9.2 billion (23%) from the collections projected under normal trading conditions. The table below sets out the impact of applying the additional "roll" rates, resulting in a reduction in legal collections. The "unstressed" collections are the collections projected in terms of the Collections Model under normal trading circumstances (based upon African Bank history). The impact on collections is highest in the early periods following the announcement of closure and winding-up. The total reduction in collections from the assumed roll rates amounts to ZAR9.2 billion, with most of this shortfall arising in the first two years after the Liquidation/MRO Date (OC).

Cash collections ZAR million	Year 1	Year 2	Year 3	Year 4	Residual Post Year 4	Total
Unstressed	16 720	10 607	6 361	3 562	2 575	39 825
MRO	12 221	7 383	5 161	3 402	2 503	30 670
Difference	(4 499)	(3 224)	(1 200)	(160)	(72)	(9 155)

The collections projected above are based on several operational assumptions and strategies that are explained in the paragraphs below. Please note that these are mere assumptions that have been used to prepare the analysis and no decision has yet been made or considered in respect of the retention or termination of staff during a potential MRO period. It is crucial for a successful MRO that appropriate staff are retained and adequately incentivised (please see paragraph 9.3 below) and it is anticipated that this process will be considered and implemented by a liquidator only after careful consideration and engagement.

(a) Loan book/collections staff modelling

To estimate the level of collection activity the number of loans has been forecast by CD Status groups, contractual CD that takes any arrears including interest and fees into account. The number of collections staff (and commensurate cost) is assumed to be aligned to the number of loans in the different CD Status categorisations as follows:

- CD0: The number of staff in the electronic payments team are right sized in proportion to the number of fully performing loans (i.e. CD0 loans);

- CD1 - CD4: The number of call centre staff are right sized in proportion to the number of loans classified between CD1 CD4; and

- CD4+: The staff in the legal team are right sized in proportion to the number of loans above CD4.

Indirect collections staff are right sized in proportion to the total change in the direct collections workforce. It is projected that the first right-sizing of staff will take place six months after the Liquidation/MRO Date (i.e. October 2016) followed by further reductions in April 2017. In the MRO Scenario, subsequent right-sizing takes place every 6 months thereafter (IC).

(b) Customer Value Proposition ("CVP") modelling

The CVP team encompasses the sales team, the branch network and any central strategy/customer development teams, such as marketing. During the first right-sizing after the Liquidation/MRO Date it is assumed that the employment of all centrally based CVP staff will terminate, aside from those supporting the branch network. In addition, the number of staff within the branch network is assumed to reduce by 60%, reflecting the fact that the branches will only be supporting collections and not sales any more. The branches are then assumed to be closed in April 2017 and it is assumed that all remaining CVP staff will cease to be employed by African Bank after this date (IC).

(c) Group functions staff modelling

Staff working in group functions, including areas such as finance, risk, human resources, treasury, corporate affairs and investor relations are all assumed to be retained until October 2016. At this point, the number of staff, and associated cost, is assumed to reduce in proportion to the total number of active loans. This is assumed to step down every six months, in line with the projected right-sizing of staff (IC).

(d) Bank charges

Bank charges largely arise from the cost of debit order strikes and are therefore driven by the number of performing customers. The monthly average bank charge is assumed to reduce in line with the falling number of CD0 loans. An inflationary increase is applied from April 2016 (OC).

(e) Other operating expenditure

The monthly other expenditure is estimated to be ZAR20 million - ZAR25 million per month immediately after the Liquidation/MRO Date, based on historical averages adjusted for lower volumes of business (OC).

(f) Retrenchment costs

If the MRO is implemented in liquidation as opposed to continued Curatorship, then no retrenchment costs will be payable to staff. This is so because employment contracts are automatically suspended on the granting of a provisional liquidation order. Suspended employment contracts automatically terminate 45 days after the final appointment of a liquidator, unless the liquidator elects to continue with any of the contracts. The analysis for the MRO Scenario assumes no retrenchment costs. If the MRO is implemented under Curatorship, then some retrenchments costs will be incurred but these are not included in the model due to materiality (OC)**.**

In practice, a liquidator could affect salary cost reductions immediately from provisional liquidation based on the right-sizing strategy explained above. The liquidator may then either take no further steps vis-a-vis suspended contracts of employment, or may enter into new arrangements with employees if they are needed to run the business in liquidation. In practice the liquidator is likely to negotiate new contracts with selected employees from the Liquidation/MRO Date and such new contracts are likely to have a fixed term aligned to the right-sizing requirements of the business up to closure. It is assumed there will be no claims of employees for a portion of unpaid salaries which would have ranked as a statutory preference in liquidation.

A remaining workforce of approximately 328 full time equivalent staff ("FTE") is assumed as at April 2020. It is presumed that these individuals would be transferred to any purchaser of the residual loan book at that time (OC).

The table below reflects the various costs projected for the MRO Scenario over a five year period up until FY20 (please refer to paragraph 9.3 below for more detail about these costs):

MRO ZAR million	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Staff costs						
CVP	449	-	-	-	-	449
Collections	287	153	82	44	-	566
Group Functions	306	310	326	341	-	1 283
Total staff costs	**1 042**	**463**	**408**	**385**	**-**	**2 298**
Collections - Non Staff						
Bank charges	75	23	12	6	-	116
Collections Legal Fees	76	88	95	101	-	360
Direct collections costs	130	138	146	154	-	568
Communications costs	42	44	47	50	-	183
Other	84	89	94	100	-	367
CVP - Non Staff						
Branch Property	143	-	-	-	-	143
Branch IT	57	-	-	-	-	57
Transactional costs	93	-	-	-	-	93
Communication	50	-	-	-	-	50
Other	18	-	-	-	-	18
Liquidator, Legal & Bonding	500	250	150	100	-	1 000
Other	281	239	224	223	-	967
Subtotal	**2 591**	**1 334**	**1 176**	**1 119**	**-**	**6 220**
Final termination costs	-	-	-	-	1 000	1 000
Total	**2 591**	**1 334**	**1 176**	**1 120**	**1 000**	**7 220**

The total cost of collection in the MRO Scenario is estimated at ZAR7.2 billion. This equates to around 13% of total recoveries (i.e. opening cash and recoveries from the NAB) or 24% of NAB recoveries (i.e. excluding the opening cash balance on Liquidation/MRO Date).

9 Collections Model and Operating Costs Model

9.1 Two models

To establish the estimated recovery from the Disposal Scenario and the MRO Scenario:

- a cash collection model has been built based on past experience of African Bank, which sets out the estimated cash collections from the loan book up until Year 4 with a final year of termination in Year 5 ("**Collections Model**"). Adjustments have also been made to the Collections Model to reflect the assumed impact of closure and winding-up on customer behaviour, staff and suppliers. This impact includes increased level of non-payment that would reduce and delay cash flows and reduced levels of legal collections for the period up to February 2017 (OC);

- an operating costs model ("**Operating Costs Model**") has been built based on the assumed level of activity required to continue to service the loan book up until Year 4 (with a final year of termination in Year 5), taking into account: (i) assumed changes in strategy adopted by the liquidator (such as the cessation of loan disbursements) and (ii) the evolution of the loan book over time (as performing loans repay and the book declines). The Operating Costs Model also projects the estimated amount of other costs of the liquidation, including liquidator's fees, legal fees, the cost of the liquidator providing statutorily required security (bond) and the cost of dealing with other non-collection matters that arise, such as litigation and unforeseen claims (OC).

9.2 Collections Model

The Collections Model estimates customer payment behaviour based on historical analysis. Cash receipts are projected until loans are repaid in the ordinary course, settled early or collected through a legal process.

The projections are derived using "roll rate" matrices that suggest the probability of an account "rolling" between different levels of arrears. The probabilities are based on the historic movements of homogenous groups of accounts between arrears statuses. Homogenous groups of accounts are defined as accounts with similar risk profiles (application scores), terms and months on book.

For accounts that are assumed to "roll" into default, a cash flow forecast is produced for seven years being the time over which an account may make a payment, with the level of payment on the loans being a function of the default bucket. The time already spent in default is also taken into account for loans that are assumed to be in default at the Liquidation/MRO Date. Key assumptions underlying the Collections Model include that:

- the risk profile, term and months on book for roll rates and market segment, term and time in default, together fully describe the risk of the loans that are already in default and that there are no other underlying risk drivers;

- the historic experience is reflective of future performance;

- the increase in loans in default leads to an elongation of the collection period;

- no allowance is made for future macro-economic stress; and

- the data used is accurate and complete.

The assumed impact of closure and winding-up on the collections of African Bank is discussed in more detail in paragraph 8.

9.3 Operating Cost Model

The Operating Cost Model sets out the estimated full cost of African Bank implementing the MRO Scenario or Disposal Scenario up until Year 4, with Year 5 being the final year in which the process will terminate and the Bank will be closed down. The current and historic operating cost being incurred by African Bank was used as a basis to build the Operating Costs Model. The Collections Model was then used to inform the changing mix of loans within the portfolio to establish the estimated cost for each of the key activities over time. It will be incumbent upon the liquidator to manage the staff headcount appropriately and a rightsizing of staff numbers have been assumed at six monthly intervals.

The most important assumptions that drive the Operating Cost Model are as follows (please note that numbers, amounts and percentages are merely illustrative in nature and are used for purposes of modelling - they do not reflect any actual decision or view already formed by the Curator):

- in both scenarios, it is projected that relevant staff are given an immediate pay rise (on 1 April 2016) of 20% per annum to incentivise them to stay;
- in the MRO Scenario, it is projected that relevant staff are given further pay rises of 20% each year on 1 April;
- in both scenarios, it is projected that a total bonus equivalent to 20% of staff costs (of those retained at the time) is paid on 1 April 2016 and this bonus is projected in the MRO Scenario to be repeated each year;
- in both scenarios, it is projected that the first reduction of staff costs will take place six months after the Liquidation/MRO Date (i.e. October 2016) followed by further reductions in April 2017. In the MRO Scenario, subsequent right-sizing takes place every 6 months thereafter. The Disposal Scenario assumes minimal staff remaining after the disposal of the NAB at the end of March 2017;
- it is assumed that no new loans are advanced, rolled over or re-profiled, after the Liquidation/MRO Date;
- it is assumed that the branch network is retained to assist with collections (albeit with fewer staff) for 12 months after the Liquidation/MRO Date. After 12 months (assumed March 2017), it is assumed that all remaining branches would be exited without lease penalties;
- an inflationary increase is applied to non-staff costs per annum; and
- IT systems are maintained at current cost while they are required. The sales-focussed IT systems are assumed to become obsolete in both scenarios (and therefore costs avoided) from March 2017.

Liquidator’s fees, legal fees and costs of liquidator's security (surety bond)

In addition to the operating expenses discussed above, further expenses are modelled for liquidator's (or Curator's) fees, legal fees and statutory security to be provided in liquidation (if applicable).

Liquidator’s fees are limited by legislation to 10% of recoveries. In the MRO Scenario, this would potentially amount to ZAR5.2 billion but the Master of the High Court may reduce or increase the liquidator's remuneration if in his opinion there is good cause for doing so, which decision may be reviewed by a Court. It is assumed that a fee of ZAR5.2 billion would be regarded excessive, but on the other hand, the liquidator’s fees are likely to run to several hundred million Rand and a figure in this range has been included in the analysis. It is not anticipated that Curator's fees would be materially different to liquidator’s fees in an MRO Scenario.

The liquidator (or Curator) will also need extensive legal advice. While the quantum is difficult to predict, it is not unreasonable to assume that legal advisory fees might be substantial, depending on the nature and extent of issues raised.

If African Bank is placed in liquidation, the liquidator will be required to purchase a surety bond, the normal price of which is 0.5% of the amount bonded per annum. The amount to be bonded is the estimated value of the assets to be recovered. For a five year recovery period, this cost could amount to a further ZAR1 billion. As with the liquidator’s fees, we believe that there will be some ability to reduce this, given the size of the loan book and the fact that distributions may be made as realisations allow, rather than once at the end (and therefore the amount bonded can reduce). In an MRO under continued Curatorship, no surety costs would be required, but Curator's fees and legal fees are expected to be largely the same as in liquidation. The Curator does not believe that the absence of surety bond costs under continued Curatorship will have a significant impact on the analysis outcome and therefore Curatorship and liquidation are not modelled as distinct scenarios.

Whilst there is significant scope for the actual costs to be different, an amount of ZAR1 billion has been assumed in both scenarios for liquidator's fees, legal fees and bonding costs (noting: (i) the substantial risk of additional costs if the maximum liquidator's fees of 10% are not reduced and (ii) the fact that there will be no surety bond required under continued Curatorship).

10 Key risks and sensitivities

A key risk to this analysis is a reduction in the opening cash balance, which is assumed to be ZAR 19.7 billion and is recovered in full. Any underperformance in cash collections, or increase in operating costs, in the period through until April 2016 could materially impact this balance and corresponding recovery.

The table below reflects the impact that certain key risks and sensitivities may have on the projected outcome of the analysis in both scenarios.

Key risks and sensitivities	**Disposal**	**MRO**
	ZAR billion impact on recovery	
Earlier than assumed impact on collections due to media speculation of ABL's liquidation prior to it actually occurring (for every month of media speculation prior to Liquidation Date):	0.2	0.2
The assumed net sales proceeds in the disposal case is 20% of gross book value. For every % fluctuation in this assumption the sales proceeds change by:	0.4	NA
The discount rate assumed in the NPV calculation of the estimated return 9.3%. For each % change in the discount rate applied the estimated recovery for the senior creditors will change by:	0.3	0.8
	% change in recovery	
The estimated return to senior creditors assumes total senior creditors of R53.2bn. For every R1 billion change in this level of senior / concurrent creditors, their estimated recovery will change by:	0.9%	1.5%

Intra-group receivables and other amounts recoverable in both scenarios

There are four intercompany receivables in African Bank, with a net book value of ZARnil. Based on current information, a recovery of ZAR0.4 billion has been assumed in both scenarios. The table below sets out the current intercompany receivables. The LBV is equal to the NBV at the Liquidation/MRO Date.

ZAR million	**OBV**	**Disposal**	**MRO**
ABIL	-	133	133
GEMS	-	-	-
Ellerines Furnishers	-	11	11
EHL	-	258	258
	-	**402**	**402**

<u>EHL</u>

EHL is in business rescue and the ZAR1.4 billion intercompany loan due from EHL has been provided in full in African Bank’s balance sheet. The estimated dividend to be received from the business rescue process is predominately dependent upon the value of EHL’s shares in two insurance entities (other realisations include brands and intellectual property). The overall value of the business rescue proceeds is currently uncertain but has been estimated at ZAR570 million.

African Bank is understood to make up around 75% of the total debt of EHL. Assuming a 10% discount on this expected realisation (to cover the risk of reduced offers for the insurance entities and/or the costs of the business rescue process) the estimated net recovery equals ZAR385 million (75%*90%*ZAR570 million). A dividend of ZAR127 million has already need received leaving a balance of ZAR258 million remaining. For the purpose of the estimated financial outcome, this net amount was included as the recovery on the intercompany loan.

Ellerine Furnishers

Debt due from Ellerine Furnishers amounts to ZAR56 million. Ellerine Furnishers is currently in business rescue. It is assumed that African Bank will recover ZAR11 million from Ellerine Furnishers.

ABIL

The intercompany receivable from ABIL is ZAR265 million. ABIL is currently in business rescue. ABIL’s only material asset is its 100% ownership of Stangen. It has known liabilities of c.ZAR1 billion (including its debt to African Bank). It is the Curator's understanding that Stangen’s equity value in run-off (assuming that a liquidation of African Bank would lead to a run-off of Stangen) will exceed the total amount of ABIL’s currently known liabilities. Therefore, it is assume that 50% of the ZAR265 million loan is recovered from ABIL.

This reflects the risks to this recovery including, amongst other things, potential claims that might be brought against ABIL.

GEMS

GEMS is a dormant subsidiary of ABIL, with no assets. It is in the process of being deregistered. There is no prospect of any recovery to African Bank.

Other assets

The remaining assets that may have value in both scenarios are the statutory assets held at SARB, the owned property in Midrand and a potential tax recovery from SARS.

ZAR million	OBV	Disposal	MRO
Statutory assets	3 162	3 162	3 162
SARS Tax Debtor	-	-	-
Property and equipment	400	166	166
Sundry Debtors	-	-	-
Intangible assets	68	-	-
	3 630	**3 328**	**3 328**

Statutory assets

This is cash and liquid assets held at SARB. It is assumed that this would be recoverable in full in both scenarios (OC).

Sundry debtors

This represents many small balances and prepayments. It is assumed that no cash will be recovered from these assets (OC).

Potential SARS tax debtor

The Bank has open tax matters with SARS relating to the deductibility of impairment provisions on the Bank's advances book and the application of SARS’s directive regarding the treatment of doubtful debts by banks. The Bank is of the view that a current tax asset cannot be recognised because of the uncertainty around the resolution of this matter as negotiations with SARS remain ongoing. The Bank continues to pursue this matter, however the ultimate conclusion of this matter could vary from the amounts recognised and is dependent upon the outcome of negotiations with SARS. As a result, no recoveries for tax have been modelled in the Residual Bank projection (OC).

Intangible assets

The intangible assets are mainly computer software developed in house and other intellectual property which is not likely to have value in either scenario. A nil recovery has therefore been assumed (OC).

Property and equipment

An independent valuation of the Midrand property comprising the head office of African Bank was undertaken on an open market basis in October 2014. The valuation provided was ZAR277 million. In a liquidation, African Bank's liquidator would sell the property with vacant possession and is likely to realise a discount to this valuation. It is therefore assumed in both scenarios that only 60% of ZAR277 million will be recovered. A nil realisation is assumed for other property and equipment (OC).

Interest receivable/Dividends payable

African Bank holds a significant cash balance, which will increase as collections are made. It is assumed in both scenarios that interest will be receivable at 6% of the average annual cash balance on the Liquidation/MRO Date. It has also been assumed that creditor dividends are paid annually at the end of March (thus reducing the cash available to earn interest). The distributions are assumed to be 75% of the cash available, after deducting future projected expenses. The 25% of the cash available withheld is to cover any unexpected events. A final dividend is assumed in Year 5.

For purposes of providing a present value of dividends distributed during liquidation, an annual discount rate of 9.3% has been applied.

11 Insurance interaction with the liquidation analysis

The analysis in this Annexure B is for African Bank alone, but Stangen, and cell captive arrangements, will continue to provide insurance to the loan book after 1 April 2016.

On the assumption no further business is written in the Good Bank Cell captive the initial seed capital of ZAR152 million is recovered in full by African Bank.

The analysis presented in this Annexure B assumes that a liquidator of African Bank would cease paying premiums to Stangen or the Good Bank cell captive arrangement at CD1 – i.e. as soon as a customer missed a payment. This would protect the liquidator from the potential criticism of paying out funds that had not been collected from the customer.

The cash flows from Stangen or the Good Bank Cell are not expected to differ in this analysis with both insurance counterparties treated the same.

Annexure C - Illustrative examples

This is Annexure C to the Offer Information Memorandum.

Introduction

This Annexure C details illustrative examples of the indicative results and impact of the Exchange Offers on various Existing Senior Debt Instruments and Existing Subordinated Debt Instruments, categorised as follows:

C 1 Senior Serviced Instrument - Inflation Linked Rate (ZAR)

C 2 Senior Serviced Instrument - Floating Rate (ZAR)

C 3 Senior Serviced Instrument - Fixed Rate (ZAR)

C 4 Senior Serviced Instrument - Fixed Rate (CHF)

C 5 Senior Serviced Instrument - Fixed Rate (USD)

C 6 Senior Rolled Up Instrument - Fixed Rate (ZAR)

C 7 Subordinated Debt - Fixed rate (ZAR)

C 1 : Serviced Instrument - Inflation Linked Rate (ZAR)

Original note features:	**Illustrative example - ABLI03**	
Original principal amount:	750 000 000	
Coupon Rate	CPI + 5.1%	per annum payable semi-annually
Pay Frequency per year	2	
Issue date	15-Mar-10	
Maturity date	15-Mar-15	
Interest payable on each of	15 Mar 15 Sep	
Day Count Convention	30/360	
Last coupon payment date prior to Curatorship	15-Mar-14	

Restructured note's features - issued by Good Bank:

New principal for calculating missed coupon amount:	675 000 000	(90% of original)
New principal in Good Bank:	600 000 000	(80% of original)
Real Rate	5.10%	
Date of curatorship	10-Aug-14	
Interest Accrued on 10 August 2014	17 578 254	(10% haircut)
Assumed transaction effective date (TED)	04-Apr-16	(day 1 of Good Bank)
No of days from Curatorship to TED	603	
Plus 24 month extension	730	
Days added to original maturity	**1 333**	
New Maturity date	07-Nov-18	Curatorship period + 24 months added
Interest payment Date for the New Instrument	07 Nov 07 May	in line with the new maturity date

Important dates:

Placed under curatorship	10-Aug-14
Effective date transfer to Good Bank	04-Apr-16
Payment of missed coupons and interest on interest	04-Apr-16
First Interest Payment in the Good Bank	07-May-16

Workings:

Detail	Dates	Business Days	CPI INDEX (Actual / Forecast)	Inflated Principal (90%)	Interest Contractual (90%)	Interest Compounded (and cumulative)	Coupon Service Payment
Original Issue Date	15-Mar-10	15-Mar-10	86.05800				
Last coupon Date prior to Curatorship	15-Mar-14	17-Mar-14	105.23548				
Curatorship Date	10-Aug-14	11-Aug-14	109.26452	857 021 409			
Coupon 1	15-Sep-14	15-Sep-14	109.54000	859 182 179	21 909 146	21 909 146	
Coupon 2	15-Mar-15	16-Mar-15	111.10323	871 443 415	22 221 807	45 010 270	
Coupon 3	15-Sep-15	15-Sep-15	114.63333	899 131 981	22 927 866	70 552 487	
Coupon 4	15-Mar-16	15-Mar-16	117.82581	924 172 295	23 566 394	97 932 919	
Assumed TED	04-Apr-16	04-Apr-16	118.15000	926 715 122	2 568 613	101 043 182	101 043 182
Cash Payment on TED_10% of Original Liability							102 968 347
NEW Instrument - issued by Good Bank							**Indicative coupons**
Effective (Issue) Date	04-Apr-16	04-Apr-16	118.15000	823 746 775			
Coupon 1	07-May-16	09-May-16	118.72903	827 783 813	3 827 363		3 827 363
Coupon 2	07-Nov-16	07-Nov-16	121.70000	848 497 525	21 636 687		21 636 687
Coupon 3	07-May-17	08-May-17	125.23548	873 147 067	22 265 250		22 265 250
Coupon 4	07-Nov-17	07-Nov-17	128.82000	898 138 465	22 902 531		22 902 531
Coupon 5	07-May-18	07-May-18	132.41613	923 210 828	23 541 876		23 541 876
Coupon 6	07-Nov-18	07-Nov-18	136.02000	948 337 168	24 182 598		972 519 766

Summary

Interest Payment on Effective Date by Residual Bank	**ZAR**
Interest Due	101 043 182
Total Liability Position (Face Value) on 10 August 2014 at 90% of Senior Debt	36 528 891 785
ABLI 03 face value (capital + interest accrued) as at 10 August 2014 at 90%	874 599 663
% ABLI 03 of Total Liabilities at 10 August 2014	2.4%
Total Senior Advisor Fees (assumed - cap to be finalised)	16 500 000
Share of Senior Advisor Fees	395 054
Net Coupon Payment	**100 648 128**

Cash Payment on Effective Date by Residual Bank	**ZAR**
Cash Payment on TED_10% of Original Liability	**102 968 347**

Good Bank Instrument to be Issued	**ZAR**	
Nominal Value	600 000 000	(80% of original)
Base Index	86.05800	
Ref Index on TED	118.15000	
Nominal Value Inflation Adjusted	823 746 775	
Coupon	5.10%	

Residual Bank Instrument (10% Stub)	**ZAR**
Nominal Value at 10 August 2014	75 000 000
Base Index	86.05800
Ref Index on 10 August 2014	109.26452
Face Value at 10 August 2014	95 224 601
Accrued Interest at 10 August 2014	1 538 315
Liability position as at 10 Aug 2014 - receive a senior stub instrument	96 762 916

C 2 : Serviced Instrument - Floating Rate (ZAR)

Original note features:	**Illustrative example - ABL 16**	
Original principal amount:	800 000 000	
Margin Over 3 month Jibar	1.99%	
Pay Frequency per year	4	
Issue date	25-Mar-13	
Maturity date	25-Mar-16	
Interest payable on each of	25-Mar	
	25-Jun	
	25-Sep	
	25-Dec	
Day Count Convention	Actual/365	
Last coupon payment date prior to Curatorship	25-Jun-14	
Restructured note's features - issued by Good Bank:		
New principal for calculating missed coupon amount:	720 000 000	(90% of original)
New principal in Good Bank:	640 000 000	(80% of original)
Margin Over 3M Jibar	1.99%	
Last Reset Jibar Rate	5.808%	
Date of curatorship	10-Aug-14	
Interest Accrued on 10 August 2014	7 075 884	(10% haircut)
Assumed transaction effective date (TED)	04-Apr-16	(day 1 of Good Bank)
No of days from Curatorship to TED	603	
Plus 24 month extension	730	
Days added to original maturity	**1 333**	
New Maturity date	18-Nov-19	Curatorship period + 24 months added
Interest payment Date for the New Instrument	18-Nov	in line with the new maturity date
	18-Feb	
	18-May	
	18-Aug	

Important dates:

Placed under curatorship	10-Aug-14
Assumed Transaction Effective date for Good Bank	04-Apr-16
Payment of missed coupons and interest on interest	04-Apr-16
First Interest Payment in the Good Bank	18-May-16

Workings:

Detail	Payment Dates	Week Days	Jibar Reset	Marin Over Jibar	Interest Contractual (90%)	Interest Compounded (and cumulative)	Coupon Service Payment
Last coupon Date	25-Jun-14	25-Jun-14	5.808%	1.99%			
Curatorship Date	10-Aug-14	10-Aug-14	5.808%	1.99%			
Coupon 1	25-Sep-14	25-Sep-14	6.133%	1.99%	14 151 768	14 151 768	
Coupon 2	25-Dec-14	29-Dec-14	6.125%	1.99%	15 222 279	29 673 245	
Coupon 3	25-Mar-15	25-Mar-15	6.108%	1.99%	13 766 597	44 007 202	
Coupon 4	25-Jun-15	25-Jun-15	6.142%	1.99%	14 696 206	59 601 657	
Coupon 5	25-Sep-15	25-Sep-15	6.308%	1.99%	14 757 909	75 581 227	
Coupon 6	25-Dec-15	28-Dec-15	6.472%	1.99%	15 386 538	92 582 950	
Coupon 7	25-Mar-16	25-Mar-16	6.752%	1.99%	14 688 375	109 160 065	
Assumed TED	04-Apr-16	04-Apr-16	6.775%	1.99%	1 724 436	111 145 945	111 145 945
Cash Payment on TED_10% of Original Liability							80 000 000
NEW Instrument - issued by Good Bank							**Indicative coupons**
Effective (Issue) Date	04-Apr-16	04-Apr-16	6.78%	1.99%			
Coupon 1	18-May-16	18-May-16	6.87%	1.99%	6 762 572		6 762 572
Coupon 2	18-Aug-16	18-Aug-16	7.06%	1.99%	14 285 330		14 285 330
Coupon 3	18-Nov-16	18-Nov-16	7.22%	1.99%	14 603 900		14 603 900
Coupon 4	18-Feb-17	20-Feb-17	7.31%	1.99%	15 181 343		15 181 343
Coupon 5	18-May-17	18-May-17	7.31%	1.99%	14 182 591		14 182 591
Coupon 6	18-Aug-17	18-Aug-17	7.31%	1.99%	14 997 682		14 997 682
Coupon 7	18-Nov-17	20-Nov-17	7.31%	1.99%	15 323 719		15 323 719
Coupon 8	18-Feb-18	19-Feb-18	7.31%	1.99%	14 834 664		14 834 664
Coupon 9	18-May-18	18-May-18	7.31%	1.99%	14 345 609		14 345 609
Coupon 10	18-Aug-18	20-Aug-18	7.31%	1.99%	15 323 719		15 323 719
Coupon 11	18-Nov-18	19-Nov-18	7.31%	1.99%	14 834 664		14 834 664
Coupon 12	18-Feb-19	19-Feb-19	7.31%	1.99%	14 997 682		14 997 682
Coupon 13	18-May-19	20-May-19	7.31%	1.99%	14 671 646		14 671 646
Coupon 14	18-Aug-19	20-Aug-19	7.31%	1.99%	14 997 682		14 997 682
Coupon 15	18-Nov-19	18-Nov-19	7.31%	1.99%	14 671 646		654 671 646

Summary

Interest Payment on Effective Date by Residual Bank	ZAR
Coupon Service Payment Due	111 145 945
Total Liability Position (Face Value) on 10 August 2014 at 90% of Senior Debt	36 528 891 785
ABL 16 face value (capital + interest accrued) as at 10 August 2014 at 90%	727 075 884
% ABL16 of Total Senior Debt at 10 August 2014	2.0%
Total Senior Advisor Fees (assumed - cap to be finalised)	16 500 000
ABL 16 Share of Senior Advisor Fees (assuming whole series is exchanged for New Instruments)	328 418
Net Coupon Payment	**110 817 527**

Cash Payment on Effective Date by Residual Bank	ZAR
Cash Payment on TED_10% of Original Liability	**80 000 000**

Good Bank Instrument to be Issued	ZAR
Nominal Value	640 000 000
Margin Over 3 month Jibar	1.99%

Residual Bank Instrument (10% Stub)

C 3 : Serviced Instrument - Fixed Rate (ZAR)

Original note features:	**Illustrative example - ABL 10A**	
Original principal amount:	450 000 000	
Fixed Coupon Rate	11.5%	per annum payable semi-annually
Pay Frequency per year	2	
Issue date	2010/03/15	
Maturity date	2015/03/15	
Interest payable on each of	15 Mar	
	15 Sep	
Day Count Convention	act/365	
Last coupon payment date prior to Curatorship	15-Mar-14	

Restructured note's features - issued by Good Bank:

New principal for calculating missed coupon amount:	405 000 000	(90% of original)
New principal in Good Bank:	360 000 000	(80% of original)
Interest Rate	11.50%	
Date of curatorship	10-Aug-14	
Interest Accrued on 10 August 2014	18 731 250	(10% haircut)
Assumed transaction effective date (TED)	04-Apr-16	(day 1 of Good Bank)
No of days from Curatorship to TED	603	
Plus 24 month extension	730	
Days added to original contractual maturity	**1 333**	
New Maturity date	07-Nov-18	Curatorship period + 24 months added
Interest payment Date for the New Instrument	07 May	in line with the new maturity date
	07 Nov	

Important dates:

Placed under curatorship	10-Aug-14
Assumed Transaction Effective date for Good Bank	04-Apr-16
Payment of missed coupons and interest on interest	04-Apr-16
First Interest Payment in the Good Bank	07-May-16

Workings:

Detail	Dates	Business Days	Interest Contractual (90%)	Interest Compounded (and cumulative)	Coupon Service Payment
Last coupon Date prior to Curatorship	15-Mar-14	17-Mar-14			
Curatorship Date	10-Aug-14	11-Aug-14			
Coupon 1	15-Sep-14	15-Sep-14	23 287 500	23 287 500	
Coupon 2	15-Mar-15	16-Mar-15	23 287 500	47 914 031	
Coupon 3	15-Sep-15	15-Sep-15	23 287 500	73 956 588	
Coupon 4	15-Mar-16	15-Mar-16	23 287 500	101 496 592	
Assumed TED	04-Apr-16	04-Apr-16	2 531 250	104 662 196	104 662 196
Cash Payment on TED_10% of Original Liability					45 000 000
NEW Instrument - issued by Good Bank					**Indicative coupons**
Effective (Issue) Date	04-Apr-16	04-Apr-16			
Coupon 1	07-May-16	09-May-16	3 753 297		3 753 297
Coupon 2	07-Nov-16	07-Nov-16	20 700 000		20 700 000
Coupon 3	07-May-17	08-May-17	20 700 000		20 700 000
Coupon 4	07-Nov-17	07-Nov-17	20 700 000		20 700 000
Coupon 5	07-May-18	07-May-18	20 700 000		20 700 000
Coupon 6	07-Nov-18	07-Nov-18	20 700 000		380 700 000

Summary

Interest Payment on Effective Date by Residual Bank	**ZAR**
Coupon Service Payment due	104 662 196
Total Liability Position (Face Value) on 10 August 2014 at 90% of Senior Debt	36 528 891 785
ABL 10A face value (capital + interest accrued) as at 10 August 2014 at 90%	423 731 250
% ABL 10A of Total Senior Debt as at 10 August 2014	1.2%
Total Senior Advisor Fees (assumed - cap to be finalised)	16 500 000
ABL 10A Share of Senior Advisor Fees (assuming whole series is exchanged for New Instruments)	191 398
Net Coupon Payment	**104 470 797**

Cash Payment on Effective Date by Residual Bank	**ZAR**
Cash Payment on TED_10% of Original Liability	**45 000 000**

Good Bank Instrument to be Issued	**ZAR**
Nominal Value	360 000 000
Fixed Coupon	11.50%

C 4 : Serviced Instrument - Fixed Rate (CHF)

Original note features:		**Illustrative example - ABLSJ CHF 15**
Original principal amount:	CHF	150 000 000
Coupon		4.75%
Pay Frequency per year		1
Issue date		24-Jul-12
Original Maturity date		24-Jul-15
Interest payable on each of		24 Jul
Day Count Convention		30/360
Last coupon payment date prior to Curatorship		24-Jul-14

Restructured note's features - issued by Good Bank:

New principal for calculating missed coupon amount:	CHF	135 000 000	(90% of original)
New principal in Good Bank:	CHF	120 000 000	(80% of original)
Coupon Rate		4.75%	
Date of curatorship		10-Aug-14	
Interest Accrued on 10 August 2014	CHF	285 000	(10% haircut)
Assumed transaction effective date (TED)		04-Apr-16	(day 1 of Good Bank)
No of days from Curatorship to TED		603	
Plus 24 month extension		730	
Days added to original maturity		**1 333**	
Maturity date		18-Mar-19	Curatorship period + 24 months added
Interest payment Date for the New Instrument		18-Mar	in line with the new maturity date

Important dates:

Placed under curatorship	10-Aug-14
Effective date transfer to Good Bank	04-Apr-16
Payment of missed coupons and interest on interest	04-Apr-16
First Interest Payment in the Good Bank	18-Mar-17

Workings:

Detail	**Payment Dates**	**Week Days**	**Interest_Contractual (90%)**	**Interest_Compounded (and cumulative)**	**Coupon Service Payment**
Last coupon Date	24-Jul-14	24-Jul-14			
Curatorship Date	10-Aug-14	10-Aug-14			
Coupon 1	24-Jul-15	24-Jul-15	CHF 6 412 500	CHF 6 412 500	
Assumed TED	04-Apr-16	04-Apr-16	CHF 4 453 125	CHF 11 077 148	CHF 11 077 148
Cash Payment on TED_10% of Original Liability					15 000 000
NEW Instrument - issued by Good Bank					**Indicative coupons**
Effective (Issue) Date	04-Apr-16	04-Apr-16			
Coupon 1	18-Mar-17	20-Mar-17	CHF 5 446 667		CHF 5 446 667
Coupon 2	18-Mar-18	19-Mar-18	CHF 5 700 000		CHF 5 700 000
Coupon 3	18-Mar-19	18-Mar-19	CHF 5 700 000		CHF 125 700 000

Summary

Interest Payment on Effective Date by Residual Bank

Interest Due	CHF	11 077 148
Total Liability Position (Face Value) on 10 August 2014 at 90% of Senior Debt	ZAR	36 528 891 785
ABLSJ 15 CHF face value (capital + interest accrued) as at 10 August 2014 at 90%	CHF	135 285 000
CHFZAR on 10 Aug 2014		11.7709
In ZAR	ZAR	1 592 426 207
% ABLSJ 15 CHF of Total Liabilities at 10 August 2014		4.4%
Total Senior Advisor Fees (assumed - cap to be finalised)	ZAR	16 500 000
Share of Senior Advisor Fees (ZAR but to be converted to CHF at TED)	ZAR	719 295
Net Coupon Payment	**CHF**	**11 016 041**

Cash Payment on Effective Date by Residual Bank	**ZAR**
Cash Payment on TED_10% of Original Liability	**15 000 000**

Good Bank Instrument to be Issued

Nominal Value	CHF	120 000 000
Coupon		4.75%

Residual Bank Instrument (10% Stub)

Face Value at 10 August 2014	CHF	15 000 000
Accrued Interest at 10 August 2014	CHF	31 667
Liability position as at 10 Aug 2014	CHF	15 031 667
ZAR stub to be issued - part of senior stub instrument	ZAR	176 936 245

C 5 : Serviced Instrument - Fixed Rate (USD)

Original note features:	Illustrative example - ABLSJ USD 17
Original principal amount:	$350 000 000
Coupon	8.125%
Pay Frequency per year	2
Issue date	24-Feb-12
Maturity date	24-Feb-17
Interest payable on each of	24 Feb 24 Aug
Day Count Convention	30/360
Last coupon payment date prior to Curatorship	24-Feb-14

Restructured note's features - issued by Good Bank:

New principal for calculating missed coupon amount:	$315 000 000	(90% of original)
New principal in Good Bank:	$280 000 000	(80% of original)
Coupon Rate	8.125%	
Date of curatorship	10-Aug-14	
Interest Accrued on 10 August 2014	$11 801 563	(10% haircut)
Assumed transaction effective date (TED)	04-Apr-16	(day 1 of Good Bank)
No of days from Curatorship to TED	603	
Plus 24 month extension	730	
Days added to original maturity	**1 333**	
Maturity date	19-Oct-20	Curatorship period + 24 months added
Interest payment Date for the New Instrument	19-Oct 19-Apr	in line with the new maturity date

Important dates:

Placed under curatorship	10-Aug-14
Effective date transfer to Good Bank	04-Apr-16
Payment of missed coupons and interest on interest	04-Apr-16
First Interest Payment in the Good Bank	19-Apr-16

Workings:

Detail	Payment Dates	Week Days	Interest Contractual (90%)	Interest Compounded (and cumulative)	Coupon Service Payment
Last coupon Date	24-Feb-14	24-Feb-14			
Curatorship Date	10-Aug-14	10-Aug-14			
Coupon 1	24-Aug-14	24-Aug-14	$12 796 875	$12 796 875	
Coupon 2	24-Feb-15	24-Feb-15	$12 796 875	$26 113 623	
Coupon 3	24-Aug-15	24-Aug-15	$12 796 875	$39 971 364	
Coupon 4	24-Feb-16	24-Feb-16	$12 796 875	$54 392 076	
Assumed TED	04-Apr-16	04-Apr-16	$2 843 750	$57 726 865	$57 726 865
Cash Payment on TED_10% of Original Liability					$35 000 000
NEW Instrument - issued by Good Bank					**Indicative coupons**
Effective (Issue) Date	04-Apr-16	04-Apr-16			
Coupon 1	19-Apr-16	19-Apr-16	$947 917		$947 917
Coupon 2	19-Oct-16	19-Oct-16	$11 375 000		$11 375 000
Coupon 3	19-Apr-17	19-Apr-17	$11 375 000		$11 375 000
Coupon 4	19-Oct-17	19-Oct-17	$11 375 000		$11 375 000
Coupon 5	19-Apr-18	19-Apr-18	$11 375 000		$11 375 000
Coupon 6	19-Oct-18	19-Oct-18	$11 375 000		$11 375 000
Coupon 7	19-Apr-19	19-Apr-19	$11 375 000		$11 375 000
Coupon 8	19-Oct-19	21-Oct-19	$11 375 000		$11 375 000
Coupon 9	19-Apr-20	20-Apr-20	$11 375 000		$11 375 000
Coupon 10	19-Oct-20	19-Oct-20	$11 375 000		$291 375 000

Summary

Interest Payment on Effective Date by Residual Bank

Interest Due		$57 726 865
Total Liability Position (Face Value) on 10 August 2014 at 90% of Senior Debt	ZAR	36 528 891 785
ABLSJ 17 USD face value (capital + interest accrued) as at 10 August 2014 at 90%		$326 801 563
USDZAR on 10 Aug 2014		10.6594
In ZAR	ZAR	3 483 508 575
% ABLSJ USD 17 of Total Liabilities at 10 August 2014		9.5%
Total Senior Advisor Fees (assumed - cap to be finalised)	ZAR	16 500 000
Share of Senior Advisor Fees (ZAR but to be converted to USD at TED)	ZAR	1 573 491
Net Coupon Payment		$57 579 250

Cash Payment on Effective Date by Residual Bank	**ZAR**
Cash Payment on TED_10% of Original Liability	**35 000 000**

Good Bank Instrument to be Issued

Nominal Value	$280 000 000
Coupon	8.125%

Residual Bank Instrument (10% Stub)

Face Value at 10 August 2014		$35 000 000
Accrued Interest at 10 August 2014		$1 311 285
Liability position as at 10 Aug 2014		$36 311 285
ZAR stub to be issued - part of senior stub instrument	ZAR	387 056 508

C 6 : Rolled Up Instrument - Fixed Rate (ZAR)

Original note features:	**Illustrative example - Rolled Up Instrument**	
Last capitalised amount prior to curatorship	13 804 114	
Fixed Coupon Rate	9.430%	per annum payable semi-annually
Pay Frequency per year	2	
Issue date	01-Sep-09	
Maturity date	01-Sep-15	
Interest payable on each of	01 Mar	
	01 Sep	
Day Count Convention	act/365	
Last coupon payment date prior to Curatorship	01-Mar-14	

Restructured note's features - issued by Good Bank:

New principal for calculating missed coupon amount:	12 423 702	(90% of original)
New principal in Good Bank:	11 043 291	(80% of original)
Interest Rate	9.430%	
Date of curatorship	10-Aug-14	
Interest Accrued on 10 August 2014	519 978	(10% haircut)
Assumed transaction effective date (TED)	04-Apr-16	(day 1 of Good Bank)
No of days from Curatorship to TED	603	
Plus 24 month extension	730	
Days added to original contractual maturity	**1 333**	
New Maturity date	26-Apr-19	Curatorship period + 24 months added
Interest payment Date for the New Instrument	26-Apr	in line with the new maturity date
	26-Oct	

Important dates:

Placed under curatorship	10-Aug-14
Assumed Transaction Effective date for Good Bank	04-Apr-16
Payment of missed coupons and interest on interest	04-Apr-16
First Interest Payment in the Good Bank	26-Apr-16

Workings:

Detail	Dates	Business Days	Rolled up Principal (100%)
Last coupon Date prior to Curatorship	01-Mar-14	03-Mar-14	
Curatorship Date	10-Aug-14	11-Aug-14	13 804 114
Coupon 1	01-Sep-14	01-Sep-14	14 453 194
Coupon 2	01-Mar-15	02-Mar-15	15 132 795
Coupon 3	01-Sep-15	01-Sep-15	15 848 262
Assumed TED	04-Apr-16	04-Apr-16	16 732 673
Cash Payment on TED_10% of TED value			1 673 267
NEW Instrument - issued by Good Bank			
Effective (Issue) Date	04-Apr-16	04-Apr-16	13 386 138
Coupon 1	26-Apr-16	26-Apr-16	13 462 223
Coupon 2	26-Oct-16	26-Oct-16	14 098 706
Coupon 3	26-Apr-17	26-Apr-17	14 761 638
Coupon 4	26-Oct-17	26-Oct-17	15 459 556
Coupon 5	26-Apr-18	26-Apr-18	16 186 477
Coupon 6	26-Oct-18	26-Oct-18	16 951 761
Coupon 7	26-Apr-19	26-Apr-19	17 748 847

Summary

Interest Payment on Effective Date by Residual Bank	**ZAR**
None	

Cash Payment on Effective Date by Residual Bank	**ZAR**
Cash Payment on TED_10% of TED value	**1 673 267**
Total Liability Position (Face Value) on 10 August 2014 at 90% of Senior Debt	36 528 891 785
Face value (capital + interest accrued) as at 10 August 2014 at 90%	12 943 680
% of Total Senior Debt as at 10 August 2014	0.035%
Total Senior Advisor Fees (assumed - cap to be finalised)	16 500 000
Illustrative example of Rolled up instrument Share of Senior Advisor Fees (assuming whole series is exchanged for New Instruments)	5 847
Net cash payment (after deducting share of senior advisor fees)	**1 667 421**

Good Bank Instrument to be Issued	**ZAR**
Principal at TED	13 386 138
Fixed Coupon	9.43%

Residual Bank Instrument (10% Stub)	
Face Value at 10 August 2014	1 380 411
Accrued Interest at 10 August 2014	57 775
ZAR stub to be issued - part of senior stub instrument	1 438 187

E 7 : Subordinated Debt - Fixed Rate (ZAR)

Original note features:	**Illustrative example - ABLS 2A**	
Original principal amount:	520 000 000	
Fixed Coupon Rate	15.5%	per annum payable semi-annually
Pay Frequency per year	2	
Issue date	13-Jul-09	
Maturity date	13-Jul-16	
Interest payable on each of	13 Jul	
	13 Jan	
Last coupon payment date prior to Curatorship	14-Jul-14	

Workings:

Detail	Dates	Business Days	Capitalised Principal (original instrument)	Assumed Capitalised Principal_Total Sub Debt population	% of Sub Debt	Total New Sub Debt	Total Sub Debt Cash Paid on TED
Last coupon Date prior to Curatorship	13-Jul-14	14-Jul-14					
Curatorship Date	10-Aug-14	11-Aug-14	520 000 000				
Coupon 1	13-Jan-15	13-Jan-15	560 300 000				
Coupon 2	13-Jul-15	13-Jul-15	603 723 250				
Coupon 3	13-Jan-16	13-Jan-16	650 511 802				
Assumed Offer Date - 4 Feb'16	**04-Feb-16**	**04-Feb-16**	656 605 882	**5 220 562 417**	**12.58%**	**1 485 000 000**	**165 000 000**
Coupon 4	04-Apr-16	04-Apr-16	679 532 972				

Restructured Note - Starting 01 Dec 2015

New principal for calculating missed coupon amount:	**186 772 929**	Share of R1.485 bn
Cash Payment amount	**20 752 548**	Share of R165 mil
Margin Over 3M Jibar	7.25%	

Shares of First Coupon Calculation on new Good Bank sub debt instrument- payable on TED

Detail	Payment Dates	Week Days	Jibar Reset - assumed	Margin Over Jibar	Indicative coupons
Start Date	01-Dec-15	01-Dec-15			
Coupon 1	01-Mar-16	01-Mar-16	6.43%	7.25%	6 368 267
Coupon 2 (Capitalisation but no reset on 1 Mar'16)	04-Apr-16	04-Apr-16	6.43%	7.25%	2 461 201
				Payable on TED	8 829 468

Interest on Cash Payment calculation

Detail	Payment Dates	Week Days	Jibar Reset - assumed	Margin Over Jibar	Indicative coupons
Start Date	01-Dec-15	01-Dec-15			
Coupon 1	01-Mar-16	01-Mar-16	6.43%	7.25%	707 585
Coupon 2 (Capitalisation but no reset on 1 Mar'16)	04-Apr-16	04-Apr-16	6.43%	7.25%	273 467
					981 052

Interest Payment on Effective Date by Good Bank	**ZAR**
Interest Payment on TED by Good Bank	**8 829 468**

Cash Payment on Effective Date by Residual Bank	**ZAR**	
Cash Payment amount	20 752 548	
Interest on Cash Payment calculation	981 052	
Cash Payment on TED by by Residual Bank	**21 733 600**	(Share of Sub debt Legal Advisor Fees to be deducted from this amount)
	-700 000	
	21 033 600	

Good Bank Instrument to be Issued on TED

Nominal Value	186 772 929	Part of the R1.485bn
Margin Over 3 month Jibar	7.25%	
Pay/Reset Frequency per year	4	

Detail	Payment Dates	Week Days	Jibar Reset - assumed	Margin Over Jibar	Indicative coupons
Effective (Issue) Date	04-Apr-16	04-Apr-16	6.78%	7.25%	-
Coupon 1	04-Jul-16	04-Jul-16	6.96%	7.25%	6 530 974
Coupon 2	04-Oct-16	04-Oct-16	7.16%	7.25%	6 689 562
Coupon 3	04-Jan-17	04-Jan-17	7.27%	7.25%	6 786 086
Coupon 4	04-Apr-17	04-Apr-17	7.31%	7.25%	6 687 705
Coupon 5	04-Jul-17	04-Jul-17	7.31%	7.25%	6 778 575
Coupon 6	04-Oct-17	04-Oct-17	7.31%	7.25%	6 853 065
Coupon 7	04-Jan-18	04-Jan-18	7.31%	7.25%	6 853 065
Coupon 8	04-Apr-18	04-Apr-18	7.31%	7.25%	6 704 085
Coupon 9	04-Jul-18	04-Jul-18	7.31%	7.25%	6 778 575
Coupon 10	04-Oct-18	04-Oct-18	7.31%	7.25%	6 853 065
Coupon 11	04-Jan-19	04-Jan-19	7.31%	7.25%	6 853 065
Coupon 12	04-Apr-19	05-Apr-19	7.31%	7.25%	6 778 575
Coupon 13	04-Jul-19	04-Jul-19	7.31%	7.25%	6 704 085
Coupon 14	04-Oct-19	04-Oct-19	7.31%	7.25%	6 853 065
Coupon 15	04-Jan-20	06-Jan-20	7.31%	7.25%	7 002 045
Coupon 16	04-Apr-20	06-Apr-20	7.31%	7.25%	6 778 575
Coupon 17	04-Jul-20	06-Jul-20	7.31%	7.25%	6 778 575
Coupon 18	04-Oct-20	05-Oct-20	7.31%	7.25%	6 778 575
Coupon 19	04-Jan-21	04-Jan-21	7.31%	7.25%	6 778 575
Coupon 20	04-Apr-21	05-Apr-21	7.31%	7.25%	6 778 575
Coupon 21	04-Jul-21	05-Jul-21	7.31%	7.25%	6 778 575
Coupon 22	04-Oct-21	04-Oct-21	7.31%	7.25%	6 778 575
Coupon 23	04-Jan-22	04-Jan-22	7.31%	7.25%	6 853 065
Coupon 24	04-Apr-22	04-Apr-22	7.31%	7.25%	6 704 085
Coupon 25	04-Jul-22	04-Jul-22	7.31%	7.25%	6 778 575
Coupon 26	04-Oct-22	04-Oct-22	7.31%	7.25%	6 853 065
Coupon 27	04-Jan-23	04-Jan-23	7.31%	7.25%	6 853 065
Coupon 28	04-Apr-23	04-Apr-23	7.31%	7.25%	6 704 085
Coupon 29	04-Jul-23	04-Jul-23	7.31%	7.25%	6 778 575
Coupon 30	04-Oct-23	04-Oct-23	7.31%	7.25%	6 853 065
Coupon 31	04-Jan-24	04-Jan-24	7.31%	7.25%	6 853 065
Coupon 32	04-Apr-24	04-Apr-24	7.31%	7.25%	6 778 575
Coupon 33	04-Jul-24	04-Jul-24	7.31%	7.25%	6 778 575
Coupon 34	04-Oct-24	04-Oct-24	7.31%	7.25%	6 853 065
Coupon 35	04-Jan-25	06-Jan-25	7.31%	7.25%	7 002 045
Coupon 36	04-Apr-25	04-Apr-25	7.31%	7.25%	6 555 106
Coupon 37	04-Jul-25	04-Jul-25	7.31%	7.25%	6 778 575
Coupon 38	04-Oct-25	06-Oct-25	7.31%	7.25%	7 002 045
Coupon 39	04-Jan-26	05-Jan-26	7.31%	7.25%	6 778 575
Coupon 40	04-Apr-26	06-Apr-26	7.31%	7.25%	193 551 504.44

Residual Bank Instrument

Original capitalised interest at TED		679 532 972	
Less New Good Bank instrument plus interest from 1 Dec'15		-195 602 398	
Less Cash payment plus interest from 1 Dec'15		-21 733 600	(must exclude share of Sub debt legal advisor fees)
Nominal Value of share of subordinated stub instrument		**462 196 975**	
Floating Rate	Jibar +	5.0%	
Pay Frequency per year		4	
Effective from TED			

Annexure D

RISK FACTORS

This is Annexure D to the Offer Information Memorandum.

The African Bank Restructuring, Good Bank's strategy and the industry in which Good Bank will operate involve a high degree of risk. Please carefully read and review this entire Offer Information Memorandum and in particular consider all the risks inherent in the African Bank Restructuring, Good Bank's strategy and the industry in which Good Bank will operate, including the risk factors set out below.

The Curator believes that the factors described below represent the principal risks inherent in the African Bank Restructuring, Good Bank's strategy and the industry in which Good Bank will operate, but Good Bank's inability to implement this strategy may occur for other reasons which may not be considered significant risks based on information currently available to African Bank, or which it may not currently be able to anticipate. Accordingly, neither African Bank nor Good Bank represent that the statements below are exhaustive.

This Offer Information Memorandum contains forecasts, projections and forward looking statements that involve risks and uncertainties. Good Bank's and African Bank's actual results could differ materially from those anticipated in such forecasts, projections and forward looking statements as a result of certain factors, including but not limited to the risks described below and elsewhere in this Offer Information Memorandum. See "Important Notes and Disclaimers" for more information on forecasts, projections and forward looking statements.

Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in section 1 of this Offer Information Memorandum, except to the extent that they are separately defined in this section or it is clearly inappropriate from the context.

Consequences of a failure of the African Bank Restructuring

The failure of the African Bank Restructuring is likely to result in African Bank ceasing to be a going concern.

In the event that the African Bank Restructuring is unsuccessful and no alternative is found, African Bank believes that there are fundamental uncertainties as to whether it could continue as a going concern. In this scenario, it is likely that the Curator, under the direction of the Registrar of Banks, would continue to optimise recovery of African Bank's loan portfolio for the benefit of its creditors under an extended period of Curatorship or place African Bank in liquidation. If the Registrar of Banks exercises its powers under section 68 of the Banks Act to initiate a liquidation procedure, holders of Existing Debt Instruments may receive a financial outcome which is less favourable to such holder than the outcome projected in respect of the African Bank Restructuring. For further information on the consequences of a liquidation procedure, please see the liquidation analysis in Annexure B.

Risks related to the African Bank Restructuring and Good Bank's strategy

Good Bank may fail to implement the practical aspects of the African Bank Restructuring.

As part of the Curatorship of African Bank announced on 10 August 2014 by the then Governor of SARB, Ms Gill Marcus, Good Bank was created in order to acquire the Good Bank Business of African Bank. See section 4 of this Offer Information Memorandum for more information.

The rescue plan announced as part of the Curatorship was unprecedented in the South African banking industry and necessitated highly complex implementation steps, not least due to:

(a) the establishment of Good Bank as a new entity independent of ABIL and its shareholders, with the Consortium as its ultimate shareholders, to acquire the Good Book and the bulk of the operational assets of African Bank, including its fixed assets, immovable property, assets arising in terms of the Hedging Arrangements, operational contracts, intellectual property, certain intangible assets and the Top-Up Cash Amount, together with its business and operational functions, employees and systems (including information technology ("**IT**") systems) and to receive new capital as described in section 4.4.13 of this Offer Information Memorandum relating to the ZAR10 billion capitalisation of Good Bank by the Consortium;

(b) the necessity to acquire from inception all regulatory, other legislative and corporate approvals, licences, authorisations and registrations required by Good Bank to conduct its business as a bank;

(c) the establishment of a new board of directors of Good Bank entirely separate from the board of directors of African Bank at the date of Curatorship, including the necessity to fill key management positions within Good Bank including, but not limited to, the positions of chief executive officer and chief financial officer;

(d) the requirement to restructure the claims of African Bank's senior creditors (other than retail depositors) and the subordinated funders through the Exchange Offers as well as the necessity to establish new funding programmes by Good Bank such as the Good Bank EMTN and DMTN programmes and, to the extent commercially viable, appropriately hedge foreign currency and floating interest rate exposure under the new debt instruments; and

(e) the separation of the Good Book from the Residual Book for the purposes of the transfer and the practical implications of the transfer of the operational functions, employees and systems (including loan origination, loan administration, collection and accounting systems) from African Bank to Good Bank.

The challenges posed by the African Bank Restructuring, including those described above, are unprecedented for Good Bank or African Bank management and in South Africa in general, and there can be no assurance that all of the necessary steps will be completed in a manner currently anticipated. Failure to complete the African Bank Restructuring in the manner currently anticipated or any adverse effects resulting from a failure to properly manage the practical aspects of the Restructuring on the implementation of Good Bank's strategy could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank may fail to develop and implement an appropriate medium to long-term business strategy.

The short-term business strategy of Good Bank is based on the lending policies and strategies put in place at African Bank for the purposes of the Curatorship and is focused on the implementation steps of the African Bank Restructuring.

A comprehensive medium- to long-term strategy for Good Bank is being developed by the management and new board of directors of Good Bank. Areas of focus in this strategy will include diversification of business lines, channels and product and asset portfolios in order to improve revenue and reduce costs. The implementation of such strategy will need to take into consideration all statutory and business capital requirements, liquidity provisions, and the nature of the assets and the underlying trends in the value of such assets, in a manner that does not negatively impact on Good Bank's brand, reputation, customer satisfaction or its relationship with, and ability to retain, its employees and/or its relationship with any of its other stakeholders. The implementation of Good Bank's strategy will also need to take into account the changes in business environment of Good Bank since the Curatorship, including its market position, reputation and changes in its operations.

As a result, the successful development and implementation of Good Bank's strategy will require difficult, subjective and complex judgements, including projections of economic conditions. Furthermore, the successful implementation of Good Bank's strategy is contingent upon a range of factors, many of which are beyond Good Bank's control, including market conditions, the general business environment, the legal and regulatory environment (including all currently unexpected regulatory changes), the activities of its competitors and consumers (including in relation to any changes in the social and socio-economic environment) and the political environment.

There can be no assurance that Good Bank will be able to successfully implement all or part of its strategy or implement it when expected or targeted. Good Bank may also experience unexpected costs or cost increases and other execution problems in implementing its strategy. For example, the likely implementation of significant cost reductions may have a negative impact on Good Bank's brand and levels of customer satisfaction which may, in turn, result in customer attrition. Any steps that Good Bank may take to progressively improve its IT systems may also result in a loss of interoperability and compatibility between the systems used by the Residual Bank and the systems used by Good Bank, which may, in turn, adversely affect risk monitoring or collections. In addition, the implementation of the African Bank Restructuring, and, in particular, managing the Residual Book, will impose significant time demands on Good Bank's senior management, and there is a risk that, as a result, the successful development and implementation of Good Bank's strategy and the management of the Good Book could be adversely affected. Risks may also emerge from the separation of the Good Book from the Residual Book, such as a worse-than-anticipated performance of the loan portfolio selected to be part of the Good Book. Further, there can be no assurance that Good Bank will be able to achieve its capital, financial or operational targets (including, for example, its targets for return on equity, cost-to-income ratio, and Common Equity Tier 1 Capital), reduce costs as contemplated by the African Bank Restructuring or otherwise realise all or part of the benefits that it expects from its current plans or other future initiatives. A failure or delay in implementing Good Bank's strategy may adversely affect Good Bank's business, financial condition, results of operations and prospects.

Good Bank's reputation and competitive position have been adversely affected by the Curatorship and the prolonged implementation of the African Bank Restructuring.

Negative publicity in South Africa as a result of the Curatorship, African Bank's various credit downgrades, disappointing financial results and the need for restatements of previously released financial statements has damaged African Bank's reputation and consequently Good Bank's reputation. The prolonged implementation of the African Bank Restructuring has also eroded African Bank's competitive position in the South African market, with African Bank's competitors able to attract new customers in the business segments that have been the traditional focus of African Bank's activities. There can be no assurance that Good Bank will be able to address the damage to its reputation and competitive position upon completion of the African Bank Restructuring, and any continued deterioration of Good Bank's reputation or competitive position could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects. See also *"— Good Bank faces significant competition, which may increase in the future and have an adverse impact on its business*" and "*—Reputational damage could cause harm to Good Bank and its business prospects"*.

Challenges by creditors through litigation could have a material adverse effect on Good Bank or prevent the successful implementation of the African Bank Restructuring.

Previous liability management exercises and restructurings by other institutions have demonstrated that creditors may seek to bring claims or institute litigation in court to challenge aspects of those liability management exercises and restructurings, and there can be no assurance the African Bank Restructuring will not be subject to such challenges. Claims that may be brought by creditors before the implementation of the African Bank Restructuring against African Bank and/or Good Bank may, in some instances, not be resolved until after the implementation of the African Bank Restructuring. It is also possible that claims challenging the legality of the African Bank Restructuring, or certain aspects of it, could be brought after the African Bank Restructuring has been implemented. In particular, African Bank and/or Good Bank may be subject to litigation related to African Bank's restatements to its financial statements for the years ended 30 September 2013 and 2012 (which restatements also impacted prior periods to some degree), particularly with respect to African Bank's historical impairment policy. See *"—Good Bank, African Bank and Residual Bank financial information included in this Offer Information Memorandum has been prepared on a pro forma, forecast and projected basis and may not be an accurate indication of their respective financial performances"*.

The success of these claims, or any other creditor claims, could result in all or part of the African Bank Restructuring being declared to be unlawful and invalid retrospectively. Any one or more of such proceedings could also expose Good Bank to a monetary claim (for example, if the African Bank Restructuring is set aside, creditors could claim that any funds received by Good Bank flowing from the African Bank Restructuring should be repaid to African Bank), other penalties and/or other injunctive relief and/or could have a negative effect on Good Bank's reputation. Good Bank may also incur significant expense and expend significant management time in connection with any such proceedings, even if such proceedings are ultimately concluded in its favour. If the proceedings are not concluded in Good Bank's favour, Good Bank may also be liable for the claimant's legal costs. Any of the foregoing could have an adverse impact on Good Bank's business, financial condition, results of operations and prospects.

The Good Bank Indemnity will not cover Good Bank for all losses it may suffer in respect of the Good Bank Business.

The Good Bank Indemnity seeks to ensure that Good Bank is protected against claims or losses suffered by Good Bank in respect of the Good Bank Business, to the extent that such claims arise from facts, events, circumstances, acts and/or omissions that already existed at midnight on the day prior to the Transaction Effective Date (by way of example, if a loan granted by Residual Bank which forms part of the Good Bank Business proves to be unenforceable because it was illegal when granted, or the rate of interest payable under it exceeds the maximum allowed by law at the time it was granted, then the Good Bank Indemnity would cover Good Bank's losses in these respects). Residual Bank will issue the Good Bank Indemnity, which is guaranteed by SARB, to Good Bank on the Transaction Effective Date. Only certain losses will be covered by the Good Bank Indemnity. For example, among other requirements, the cause of the loss must have occurred before the Transaction Effective Date, the loss must not have been accounted for in the calculation of the Top-Up Cash Amount and the aggregate maximum value of all claims must not exceed ZAR3 billion. In addition, Good Bank is obligated to mitigate such losses as well as notify Residual Bank of the relevant claims and/or losses by or before the eighth anniversary of the Transaction Effective Date, subject to extensions in certain limited circumstances. Furthermore, any loss in relation to a Good Book loan is to be calculated with reference to the fair value of the loan in accordance with IFRS as at the date of the claim (but such calculation excludes the relevant facts, events, circumstances, acts or omissions prior to the Transaction Effective Date giving rise to such loss, as otherwise the Good Bank Indemnity would not achieve its intended effect). The reason for quantifying claims in respect of Good Book loans on this basis is to prevent the Good Bank Indemnity from covering any deterioration in the creditworthiness of borrowers occurring after the Transaction Effective Date. As a result, Good Bank will be unable to make claims under the Good Bank Indemnity in respect of Good Book loans if, for example, a borrower is unable or unwilling to repay a loan due to a deterioration in such borrower’s creditworthiness after the Transaction Effective Date. For more information on the Good Bank Indemnity, see section 4.4.15.

The Good Bank Indemnity will therefore not cover Good Bank for all losses it may suffer in respect of the Good Bank Business. In addition, there can be no assurance that every claim made against Good Bank in respect of Good Book loans or certain acts or omissions of African Bank will be covered by the Good Bank Indemnity, and it is not possible to predict what, if any, claims will be brought against Good Bank, by former creditors, customers or other stakeholders of African Bank, or what legal theories they may be predicated upon. There is therefore a risk that such claims would be of a type not covered by the Good Bank Indemnity, or that the amount of these claims will exceed ZAR3 billion. Therefore, despite the Good Bank Indemnity, it is possible that losses arising out of the Good Bank Business will not be covered by the Good Bank Indemnity and could have a material adverse effect on Good Bank’s business, financial condition, results of operations and prospects.

Good Bank may be exposed to risks arising from the South African government’s investigations into African Bank’s activities.

SARB conducts periodic reviews and investigations of a number of lenders in South Africa, including African Bank, in order to monitor compliance with the Financial Intelligence Centre Act, 2001 (“**FICA**”). In April 2014, SARB announced that it had collectively fined the country’s four largest lenders ZAR125 million for failing to implement adequate anti-money laundering (“**AML**”) controls. In February 2015, SARB announced it had collectively fined two other banks ZAR15 million for breaching various provisions of FICA.

In August 2014, African Bank was the subject of one such periodic AML/FICA inspection conducted by SARB. A number of findings were formally communicated to African Bank, highlighting certain deficiencies in African Bank’s client screening systems. African Bank and Good Bank have prepared a rectification plan of action, with the AML control function within Good Bank to receive additional resources and implement additional systems in order to ensure that Good Bank’s AML compliance obligations are discharged. African Bank and Good Bank are and will continue to be required, pursuant to the African Bank Restructuring, to provide SARB with monthly progress reports measured against the rectification plan with all deficiencies with regard to sanctions screening (which, as of 30 November 2015, have been resolved) and all other deficiencies to be resolved by no later than 30 June 2016. Any failure to comply with these requirements by Good Bank may result in fines, penalties or other remedial action, which could result in additional costs or limit or restrict the way that Good Bank conducts business and may further damage its reputation and, therefore, have a material adverse effect on Good Bank’s business, financial condition, results of operations and prospects.

Good Bank is dependent on its directors, senior management team and key personnel and its ability to recruit and retain them may be adversely affected by the African Bank Restructuring.

Good Bank depends on the continued contributions of its directors, senior management and other key personnel with the experience, knowledge and skills in retail banking and lending operations. None of the persons appointed to the board of directors of Good Bank, as contemplated in section 4.3, have served as a director on the board of directors of African Bank or ABIL. On 5 May 2015 and 31 July 2015, Brian Riley and Gustav Raubenheimer were appointed as Chief Executive Officer designate and Chief Financial Officer designate, respectively. The directors and senior management, therefore, have a limited track record of working together. A number of further appointments are still required, and the failure to recruit or delay in recruiting suitable key personnel to Good Bank’s board of directors or senior management team, the loss of one or more directors or members, senior management or other key personnel without finding suitable replacements, or any adverse perception resulting from the change in Good Bank’s governance or management structure following the successful completion of the African Bank Restructuring, may delay or adversely affect the ability of Good Bank to finalise and implement its strategy and, therefore, have a material adverse effect on Good Bank’s business, financial condition, results of operations and prospects.

Good Bank also relies on the skill, commitment and support of appropriately skilled and experienced key personnel for the continued success of its core lending business. As part of its strategy, Good Bank may decide to make further cost reductions, which could adversely affect staff morale, retention or the ability to recruit new staff, particularly competent and experienced credit, risk, collection, IT and other specialists. Further reductions in staff morale may have a consequential impact on customer service and cause damage to Good Bank’s brand and market position and/or customer satisfaction. The loss of, or failure to attract and retain skilled employees and key personnel may have a material adverse effect on Good Bank’s business, financial condition, results of operations and prospects.

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

Good Bank is a direct, wholly-owned subsidiary of New HoldCo, and all of the ordinary shares in New HoldCo will initially be owned by the Consortium (currently envisaged as 25 per cent. being held by the Participating Banks, 25 per cent. by the GEPF and 50 per cent. by SARB). None of the members of the Consortium are obligated to hold their ordinary shares for any prescribed time period and, as a result, each of them may sell its ordinary shares at any time (or may be required by competition authorities to sell their ordinary shares within a specified time period).

If the members of the Consortium were to sell or transfer their shares, there can be no guarantee that the new controlling shareholders would be willing or able to capitalise Good Bank in the future to the same extent as the Consortium will do in connection with the Restructuring or continue to support Good Bank's current business strategy. If Good Bank does not have access to sufficient capital or is required to pursue an alternative business strategy as a result of a change in controlling shareholders, it could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects. Furthermore, as the Consortium comprises several major South African financial and governmental institutions, a sale of all or a majority of the shares held by any or all of the members of the Consortium could be perceived as a lack of confidence by its members in Good Bank's business or prospects, which could have a further material adverse effect on Good Bank's reputation, business, financial condition, results of operations and prospects.

The split between the Good Book and Residual Book is based on predetermined credit selection and performance criteria, and the value of the Good Book may be subject to further impairments.

The Good Book was selected based on credit selection and performance criteria approved by the Consortium based on loan status and performance, which were determined to be the best quality assets in terms of their risk profile, profitability and prospects for recovery. If the same criteria were applied at a later date, the split of the African Bank loan portfolio into the Good Book and the Residual Book may have been different based on the subsequent performance of certain loans within that portfolio.

Furthermore, despite the creation of the Good Book, the implementation of a more conservative provisioning policy for Good Bank relative to African Bank's policy historically and the re-evaluation of the credit methodology of African Bank and Good Bank begun by the Curator, the nature of Good Bank's business, namely as a provider of unsecured credit products to the existing African Bank target market of lower and middle income customers, is substantially similar to African Bank's business. The Good Book loans may therefore deteriorate as a result of macroeconomic factors beyond Good Bank's control or mismanagement, which could result in impairments that are equal to or higher than those of the Residual Book. See "*—Good Bank operates in South Africa, thus exposing it to the risk of political, social and economic instability.* Impairments to the Good Book for any of the foregoing reasons could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank, African Bank and Residual Bank financial information included in this Offer Information Memorandum has been prepared on a pro forma, forecast and projected basis and may not be an accurate indication of their respective financial performances.

Other than a "dormant" set of audited financial statements in respect of Good Bank as at 30 September 2015, before the transfer to it of the Good Bank Business, the financial information included in this Offer Information Memorandum has been prepared on a *pro forma*, forecast or projected basis and is based on African Bank's audited annual financial information as at and for the year ended 30 September 2015. For more information on Good Bank's *pro forma* and forecast financial information, see Annexures A3 and A5 read with Annexure A4 to this Offer Information Memorandum. For more information on African Bank's forecast and projected financial information, see Annexure A4 and Annexure B. For more information on the Residual Bank projected information, see section 5.

Save for the "dormant" set of audited financial statements referred to above, it is important to note that Good Bank, as a newly formed entity, has not published any financial statements of its own and has no operating history. In addition, the forecasts relating to Good Bank in Annexure A5 to this Offer Information Memorandum show the absence of profitable operations for its business for the six months ending 30 September 2016. The effect of market conditions, such as exchange rates and interest rates, on Good Bank and its customers and counterparties, as well as the effect of other events within Good Bank, such as the African Bank Restructuring, may also cause actual results of operations and the financial condition of Good Bank for any period to be materially different from the financial information presented in this Offer Information Memorandum. In particular, reference is made to recent fluctuations in exchange rates for the South African Rand versus foreign currencies, where a 18.5 per cent. devaluation of the Rand versus the U.S. dollar occurred between 30 September 2015 and 22 January 2016. Accordingly, prospective investors are cautioned that Good Bank's financial information presented herein may not be an accurate indication of its results of operations and financial position in the current and prospective periods.

Furthermore, Good Bank's *pro forma* financial information as of 30 September 2015 is based on African Bank's historical financial information as of that date, and previous historical financial information of African Bank has been restated (which also impacted prior periods to some degree), particularly with respect to African Bank's historical impairment policy. Investors should note that Deloitte & Touche ("Deloitte"), African Bank's auditors, did not express an audit opinion in respect of African Bank's financial statements as of and for Financial Year 2014, which are incorporated by reference herein, due to the existence of significant uncertainties at the time regarding a restructuring of African Bank. In addition, Deloitte included qualifications and an emphasis of matter (stating that the financial statements were not prepared on a going concern basis) in its audit opinion in respect of African Bank's financial statements as of and for Financial Year 2015, which are also incorporated by reference herein. Although Good Bank's risk management policies have been reviewed and redesigned where appropriate in an attempt to prevent a recurrence of these errors and qualifications, there can be no assurance that these new policies will prove to be effective. See "*Good Bank's risk management policy may prove inadequate for the risks faced by its business.* The inherent uncertainty in making judgements, estimates and assumptions with respect to, among other matters, the impairment of financial assets, valuation of financial instruments, insurance and taxation mean that actual results reported may be based upon amounts which differ from those estimates. If the judgements, estimates and assumptions used by Good Bank in preparing its financial statements are subsequently found to be incorrect, Good Bank may be required to make changes in accounting estimates or restate prior period financial statements in the future. Any such changes or restatements could have a material adverse effect on the business, financial condition, results of operations and prospects of Good Bank.

Investors should also note that, due to the fact that Residual Bank will comprise the assets and liabilities of African Bank which are not transferred to Good Bank, the projected financial information of Residual Bank is largely dependent on Residual Bank's loan recovery rates or its ability to collect other receivables. As a result, if the loan recovery rates of Residual Bank materially differ from its projections and estimates, it could have a material adverse effect on Residual Bank's business, financial condition, results of operations and prospects. For more information on the projected assets and liabilities of Residual Bank, please see section 5.

Furthermore, if the African Bank Restructuring is not implemented, it is likely that African Bank would be liquidated. The liquidation analysis set forth in Annexure B includes certain projected outcomes if this scenario were to occur. These projections are also subject to inherent uncertainty and the actual results of any liquidation procedure or disposal of assets may materially differ from the projected outcomes discussed in Annexure B.

African Bank's, Good Bank's and Residual Bank's actual results could differ from the prospective financial information contained in this Offer Information Memorandum.

The prospective financial information contained in this Offer Information Memorandum relating to African Bank (contained in Annexure A4 and Annexure B), Good Bank (contained in Annexure A5) and Residual Bank (contained in section 5), including but not limited to the forecast Common Equity Tier 1 Capital ratio of Good Bank and the prospect of Good Bank achieving the CET Target, are based on certain assumptions and estimates which are inherently subject to significant uncertainties and many of which African Bank, Good Bank, and Residual Bank do not control, including, among others:

(a) Good Bank's business performance generally and its ability to originate new loans that comply with its risk management standards (see *"—Good Bank's risk management policy may prove inadequate for the risks faced by its business*.");

(b) loan recovery rates of the Good Book and the Residual Book, and the ability of Good Bank and Residual Bank to collect receivables;

(c) the estimates of the fair value of assets and liabilities to be accounted for in the balance sheets of Good Bank and the rate of amortisation relating to assets (see Annexure A5);

(d) South African macroeconomic factors such as inflation, unemployment and the general cost of living, which could influence levels of disposable income among Good Bank's customer base and, therefore, affect customers' repayment of loans to Good Bank (see "*—Good Bank will operate in South Africa, thus exposing it to the risk of political, social and economic instability*.");

(e) global macroeconomic factors which could influence the direction of the South African macroeconomic factors discussed above (see "*—Volatility in the international financial markets and the global economy could have an adverse effect on the South African economy and Good Bank's business*.");

(f) the implementation of regulatory changes that affect Good Bank's business, such as prescribed caps on the maximum interest rates that may be charged to clients (see "*—Good Bank will operate in a highly regulated environment which is subject to change.— Limit on credit life premiums*");

(g) the viability of interest rates, as issued under NCA regulations and published by the NCR from time to time, for Good Bank's business (see "*—Good Bank will operate in a highly regulated environment which is subject to change.—The NCA and unsecured lending*");

(h) potential changes in the interpretation of International Accounting Standards (see also "*—Good Bank may be adversely affected by changes in financial reporting standards*");

(i) the level of any claims made by Good Bank against Residual Bank in terms of the Good Bank Indemnity, and the length of time Good Bank will require the Indemnity Reserve and the SARB Guarantee to remain in place. In this regard, the settlement of any claims made by Good Bank in terms of the Good Bank Indemnity or its counter side - the accumulation and retention of the Indemnity Reserve - constitutes the single biggest driver that impacts upon the Residual Run-Off Analysis contained in section 5.4;

(j) potential litigation to which Residual Bank may be subjected to whether arising out of challenges to the African Bank Restructuring or aspects thereof, African Bank's restatements of its financial statements as of and for the years ended 30 September 2012 and 2013 or otherwise; or

(k) in the event that the African Bank Restructuring does not occur and African Bank is liquidated or if the Registrar of Banks exercises its powers under section 68 of the Banks Act to initiate a liquidation procedure, the occurrence of any of the factors (a) through (j) above in relation to African Bank.

A list of these principal assumptions can be found in Annexure A5 as read with Annexure A4, Annexure B and section 5 to this Offer Information Memorandum. Actual results may differ materially from these forecast and projected financial information. In addition, the degree of uncertainty increases with each successive period presented.

Furthermore, the prospective financial information of African Bank, Good Bank and Residual Bank has been prepared on the basis of certain estimates as of the date of such prospective financial information for calculating future performance for each of the financial years ending 30 September 2016, 2017 and 2018. None of Good Bank, Residual Bank and African Bank intends to publish any update or otherwise publicly revise the prospective financial information to reflect future events or circumstances unless required by law. The prospective financial information should not be relied upon for any purpose other than considering the Exchange Offers contemplated by this Offer Information Memorandum. Actual results may be materially less favourable than the prospective financial information or the estimates and assumptions on which the prospective financial information are based.

Good Bank's risk management policy may prove inadequate for the risks faced by its business.

The management of credit, liquidity, funding, operational, financial and legal and regulatory risks requires, among other things, a robust risk management policy. Good Bank's board of directors is responsible for identifying the key business risks facing Good Bank, outlining acceptable levels of risk and developing Good Bank's overall risk management policy. However, this policy may not always prove to be adequate in practice due to, among other factors, macroeconomic volatility or a failure by senior management and other key personnel to effectively implement Good Bank's risk management policy.

Changes to the impairment policy contributed to material impairment charges on African Bank's loan portfolio, which were not reflected in prior financial years in full and not recognised by African Bank until the financial statements of African Bank as of and for the years ended 30 September 2014 and 2015.

African Bank launched an internal review of its credit lending criteria in order to establish a more robust loan origination process and to improve its ability to identify and anticipate credit risk issues. As a result of these internal and external reviews, African Bank documented and approved new credit control standards as part of the development of its overall revision of its risk management framework and policy, which, for example, reduced maximum loan sizes and terms and implemented more detailed credit control checks. For more information on Good Bank's ongoing examination of its risk management policy, see section 4.4.11.

This revised risk management framework and policy will take time to implement within Good Bank's business units. Furthermore, while Good Bank has a range of tools designed to measure and manage the various risks which it faces, these methods may prove to be inadequate for predicting risk exposure, which may prove to be significantly greater than predicted. Good Bank's methods for risk management are based on its evaluation of market, customer and other data, which may be imprecise or evaluated inaccurately. In addition, even though Good Bank constantly measures and monitors its exposures, there can be no assurance that its revised risk management policies will be effective, particularly in unusual or extreme market conditions. Any such matters could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Risks related to the business and the industry of Good Bank

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

Good Bank faces significant competition from banks that provide unsecured lending, such as Capitec Bank Holdings Limited, as well as competition from large, traditional banks such as Absa Bank Limited, FirstRand Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited. Many of these institutions have greater financial and other resources than Good Bank and have not been subject to the financial and reputational difficulties faced by African Bank. See "*–Good Bank's reputation and competitive position have been adversely affected by the Curatorship and the prolonged implementation of the African Bank Restructuring.*" In addition, there are major non-bank credit providers that compete in the unsecured lending market with brands and products that are similar to Good Bank's product offerings. Other competitor groups include the various retailers who provide credit to their customers in respect of clothing, furniture and appliances. These organisations compete for substantially the same customers as Good Bank and, due to the erosion of Good Bank's competitive position during the period of the Curatorship, these competitors may attract and retain customers who had previously used African Bank, which could further decrease Good Bank's customer base. Good Bank's market position may deteriorate if its competitors deploy greater financial resources, have access to lower-cost funding or operate at a lower cost due to a less regulated environment (compared to banks, for example) or are able to offer a broader suite of products than Good Bank. Good Bank may also be unable to introduce new products and services ahead of its competitors and would therefore not derive any competitive advantage from being first-to-market. Failure to compete effectively in the South African market would, therefore, have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Capital adequacy and regulatory ratios may constrain Good Bank's profitability and/or growth.

Good Bank is required by SARB, to comply with certain capital adequacy ratios and other ratios. The capital adequacy regime in South Africa and globally has been subject to significant change in recent years. See "*—Good Bank operates in a highly regulated environment which is subject to change—The Banks Act and regulations relating to banks and liquidity*". Good Bank's ability to maintain its ratios could be affected by a number of factors, including:

(a) an increase of Good Bank's risk weighted assets;

(b) Good Bank's ability to raise capital, including a change in the ability of New HoldCo to make capital contributions to Good Bank;

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

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

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

At the conclusion of the African Bank Restructuring, (assuming a Transaction Effective Date of 1 April 2016 which, for practical purposes, is targeted to occur on 4 April 2016 or such earlier or later date as the Curator may announce), Good Bank's forecast Total Capital Adequacy Ratio is expected to be 34.1 per cent., calculated in accordance with the rules contained in the Basel III accord (the "**Basel III rules**"), based on the assumptions included in Annexure A5 to this Offer Information Memorandum.

Although in accordance with the African Bank Restructuring, and following the completion of the African Bank Restructuring and the issuance of New Debt Instruments pursuant thereto, Good Bank's capitalisation will meet all applicable regulatory requirements, Good Bank may need to raise additional capital in the future. Good Bank's ability to raise capital may be limited by numerous factors, including general economic and financial conditions, the availability of funding in the capital markets generally or from Good Bank's shareholders, investor confidence, sentiment towards the South African economy and the credit rating, financial condition and results of operations or prospects of Good Bank. There can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Any failure to raise additional capital in the future (whether on favourable terms or at all) may restrict Good Bank's growth plans including its ability to grow its loan portfolio. See also "*—Good Bank is exposed to funding and interest rate risk*".

Any breach of SARB's regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in Good Bank being subject to administrative sanctions, which may result in an increase in its operating costs, reputational loss or Good Bank being placed under curatorship or in liquidation. Any of these events could have a material adverse effect on Good Bank's business, financial condition, results of operations and/or prospects as well as directly and adversely affecting the value of the notes issued under the Good Bank EMTN and DMTN programmes and the other New Debt Instruments issued by Good Bank.

Good Bank's lending business is inter-dependent with its newly established credit life insurance business.

Historically, African Bank required its customers, as a condition to receiving a loan, to obtain credit life insurance, which covered a customer's outstanding credit obligations to African Bank in the event of the customer's death, disability or retrenchment. The vast majority of African Bank's customers purchased this product from Stangen, and Stangen paid monthly fees and commission to African Bank based on these sales, which constituted a significant and profitable source of revenue for African Bank.

The New HoldCo Group will seek to replicate this business model through a "cell captive" arrangement with Guardrisk Life Limited ("**Guardrisk**"), a registered long-term insurance company which offers insurance through a contractual arrangement widely used in South Africa known as a "cell captive". For more information, see section 4.5 of this Offer Information Memorandum. Under this contractual arrangement between Guardrisk and InsureCo, Guardrisk has established a new insurance "cell" which has been capitalised by InsureCo through the subscription of a specific class of shares in Guardrisk. Through this shareholding and the related contractual arrangements, InsureCo will be entitled to the underwriting profits and be responsible for the underwriting losses in respect of the insurance business generated in that cell. The funds for the initial capital of the new insurance cell have been made available by African Bank in the form of a loan to New HoldCo, with the proceeds thereof then contributed as equity to InsureCo. On the Transaction Effective Date, such loan claim will be transferred from African Bank to Good Bank for value as part of the Restructuring.

In addition, Guardrisk and Good Bank will enter into contractual arrangements in terms of which Good Bank will offer credit life insurance products underwritten by Guardrisk and will perform certain services in connection with those policies and be entitled to receive fees and commissions for such services from Guardrisk. The profits and losses associated with these insurance products will be ring-fenced in the cell established for InsureCo. Good Bank's revenue will depend, in part, on these fees and commissions. In addition, the level of Good Bank's debt recovery rates will depend on the ability of Guardrisk to meet its obligations under its credit life insurance policies.

The cell will depend on the generation of new credit life insurance business for its revenue rather than on the existing policies of Stangen, and there can be no assurance that the new insurance cell will be successful in generating new business, or that it will be able to do so profitably. In addition to the fees and commissions mentioned above, InsureCo will realise income from Guardrisk under the new insurance cell structure in the form of dividends paid from the profits made in the cell and, if the cell is unprofitable, no dividends will be paid to InsureCo. Even if the new insurance cell is profitable, if losses are suffered in other cells of Guardrisk and the shareholders of these loss-making cells default on their capitalisation obligations, then Guardrisk may not be in a position to declare and pay dividends to InsureCo. Although Guardrisk will provide buffer capital to absorb any such losses, there can be no assurance that this capital buffer will be sufficient in all circumstances.

In addition, this cell captive arrangement obligates InsureCo to contribute capital to Guardrisk in respect of the cell captive structure to ensure that the cell complies with minimum solvency and capital adequacy requirements at all times. In the event that InsureCo cannot meet this obligation to further capitalise the new insurance cell, InsureCo may need to seek additional funding from the New HoldCo Group or other sources and, if InsureCo is unsuccessful, Guardrisk may exercise its right to take control of the new insurance cell's business. If this were to occur, the New HoldCo Group could lose the value of its investment in InsureCo, which will, in turn, result in a write-down or impairment of the corresponding loans made by Good Bank to New HoldCo. Furthermore, these events could adversely impact the sale of credit life insurance policies by Good Bank, which could result in the loss by Good Bank of some or all of the fees and commission generated from those sales. These factors could have an adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Furthermore, as the cell is a newly established insurance business, Good Bank will be required to spend significant time and resources in the short- to medium-term to hire employees and implement the administrative functions necessary to ensure that the new insurance business is operational. There is a risk that the costs of implementing these administrative functions will be higher than currently anticipated, or that such implementation will take longer than currently planned for reasons described above. The implementation of the cell captive arrangements could also be delayed as a result of a dispute initiated by Stangen, alleging that it should benefit from continued exclusive arrangement with the Good Bank. If the establishment and operation of the cell captive arrangement is delayed for any reason, Good Bank will be unable to realise the revenue generated from the fees and commissions from sales of credit life insurance policies underwritten by Guardrisk.

Stangen, which is not part of the New HoldCo Group, will continue to administer existing credit life insurance policies held by Good Bank's customers in connection with their Good Book loans which may adversely affect loan recovery rates.

Good Bank will acquire the Good Bank Business, which includes the Good Book, from African Bank on the Transaction Effective Date. The vast majority of customers with loans in the Good Book also hold credit life insurance policies in connection with these loans, which are administered by Stangen. Stangen will continue to administer existing credit life insurance policies held by Good Bank's customers in connection with their Good Book loans. As Good Bank and Stangen no longer benefit from the synergies from cross-selling their products within the ABIL Group, operational inefficiencies and other factors may result in Stangen paying out claims to Good Bank's customers more slowly or rejecting more claims than it had historically as part of the ABIL Group. If this occurs, Good Bank's loan recovery rates will decrease, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Reputational damage could cause harm to Good Bank and its business prospects.

An entity's reputation is one of its most important assets. Good Bank's ability to attract and retain customers and staff and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brand is further damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to Good Bank's business, financial condition, results of operations and prospects. Reputational issues in respect of Good Bank include, but are not limited to:

(a) the reputational damage arising from the various credit rating downgrades of African Bank, its disappointing financial results during the financial years ended 30 September 2013 and 2014, ultimately resulting in the Curatorship, the restatement of the financial results for the years ended 2012 and 2013 and continuing press reporting and public scrutiny of the Curatorship;

(b) any potential litigation or objections that may arise from creditors in connection with the African Bank Restructuring as a whole and associated media coverage;

(c) being required to raise further capital in the future, which could affect, or be perceived to affect, confidence in Good Bank;

(d) a reduction in Good Bank's' customer service levels resulting from any cost-cutting to Good Bank's business;

(e) actions of African Bank or ABIL which adversely impact Good Bank's brand, as well as adverse findings following from any legal or regulatory investigation into African Bank or ABIL's conduct, in particular any criticism that may arise from the independent Myburgh Commission into the events which led to the announcement of the Curatorship;

(f) any actual or alleged breaches by African Bank or Good Bank of legal and regulatory requirements that may arise or facing allegations of having acted unlawfully or unethically (including having adopted inappropriate sales and trading practices) or failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;

(g) technology failures that impact upon customer services and accounts;

(h) an inability to refinance restructured funding which begins to mature in 2018;

(i) internal fraud or misconduct; or

(j) generally poor company performance.

Any current or further damage to Good Bank's reputation due to any of the foregoing issues could make customers and funders unwilling to do business with Good Bank or damage its relationships with its regulators and all of its other stakeholders, which could in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

Good Bank operates in South Africa, thus exposing it to the risk of political, social and economic instability.

Good Bank derives its revenue from its operations in South Africa as its advances book comprises loans to individuals employed by South African entities. As a result, Good Bank faces a geographic concentration risk. South Africa is generally considered to be a developing economy. Investors in developing economies such as South Africa should be aware that these markets are subject to greater risk than more developed markets. These risks include economic instability as well as, in some cases, significant legal, political, social and socio-economic risks, including the following:

(a) general prevailing economic and business conditions;

(b) high interest rates;

(c) fluctuations in exchange rates for South African Rand versus foreign currencies;

(d) fluctuating levels of inflation;

(e) government policies which may adversely affect the financial sector or the banking industry;

(f) labour unrest, strikes and civil protests;

(g) exchange controls and changes in exchange control legislation;

(h) wage and price controls;

(i) changes in economic or tax policies;

(j) the imposition of trade barriers;

(k) health issues and incidences of disease, including HIV/AIDS;

(l) poverty, crime and social inequality and/or social unrest;

(m) the inability to maintain critical infrastructure in South Africa, including the provision of electricity;

(n) negative economic or financial developments in other emerging market countries;

(o) changes in investor confidence; and

(p) perceived or actual security issues or political instability.

The South African economy has continued to grow in recent years and, according to the International Monetary Fund (the "**IMF**") World Economic Outlook, economic growth is expected to continue at a rate between 0.9 to 2.4 per cent. per annum between 2016 and 2017. Inequality in wealth distribution remains one of the largest potential destabilising factors in South Africa, as it may exacerbate unemployment, poverty and crime as well as lead to political and social instability in the form of labour unrest, strike and civil protests, which could have an impact on Good Bank's customer base and certain of its service providers. See *"—Good Bank's operations may be disrupted by increased trade union activity in South Africa*". Any adverse changes affecting the South African economy or increases in political instability could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank's customers, who generally have modest incomes, are particularly affected by macroeconomic factors, such as inflation, unemployment and the general cost of living, and generally have less capacity to deal with financial emergencies and reductions in disposable income than higher income groups. Furthermore, African Bank's loan disbursements have declined in recent years due to reduced demand for credit in African Bank's target market, an increase in rejections of loan applications as a result of the deteriorating creditworthiness of loan applicants and the tightening by African Bank of its credit-granting criteria. For more information, please see section 4.4. If the rate of economic growth in South Africa slows or other macroeconomic factors do not perform as expected, Good Bank's customers could further reduce their demand for its products and services, or fail to meet existing loan commitments, which may have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects. Accordingly, any adverse changes affecting the South African economy could also have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Volatility in the international financial markets and the global economy could have an adverse effect on the South African economy and Good Bank's business.

Good Bank's business is affected by general prevailing economic and financial market conditions in South Africa. The financial markets in South Africa are less mature than other, more developed markets and, as a result are less liquid and more volatile than developed markets. Like other emerging markets, the capital and financial markets in South Africa are also influenced by global economic conditions.

Since the global financial crisis in 2008, global economic conditions and financial markets have experienced significant volatility. The factors contributing to the recent volatile conditions that have affected emerging markets included the tapering of the United States Federal Reserve's (the "**Fed**") quantitative easing programme in 2014 and the uncertainty surrounding the timing of the first increase of the Fed's benchmark interest rate in 2015, which was increased by 0.25

per cent. in December 2015, and the remaining uncertainty of the interest rate path following this increase, as well as the continued instability of Europe's sovereign credit markets, and the events in Greece in particular. There remains significant uncertainty about the Fed's and the European Central Bank's (the "**ECB**") monetary policies and their impacts on the global economy generally. In addition, there can be no assurance that the contagion effects of any deterioration in some or all of the territories within the Eurozone would not adversely affect the global economy. This continued turbulence in the global economy or, for example, a renewed decline in demand for imports from the European Union could have an adverse effect on South African exports or a reduction in per capita income and, therefore, consumer spending. In particular, decreased demand for resources in China has had and may continue to have a significant effect on the prices of commodities in South Africa, which are heavily dependent on these resources. Continued or increased levels of volatility in global economic conditions and financial markets could adversely affect the South African economy, and, in turn, Good Bank's business, financial condition, results of operations and prospects.

Developments and the perception of risk in other emerging market countries may adversely affect Good Bank's access to financing and the market price of Good Bank's securities.

The market value of securities of South African issuers is affected by prevailing economic and market conditions in other countries, particularly other emerging market countries (this is sometimes referred to as "contagion" effect). Although economic conditions in those countries may differ significantly from economic conditions in South Africa, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of South African issuers. Crises in other emerging market countries may diminish investor interest and confidence in securities of South African issuers, including the securities of Good Bank. This could adversely affect the market price of Good Bank's securities, restrict Good Bank's access to the capital markets or compromise Good Bank's ability to finance its operations in the future on favourable terms, or at all, each of which could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank is exposed to credit risk.

Good Bank's business is subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from counterparties. Please see section 4.4.11 for a discussion of Good Bank's credit risk management policies. Consequently, adverse changes in the credit quality of Good Bank's customers could reduce the value of Good Bank's assets, which would require increased provisions for bad and doubtful debts. In particular, African Bank's and Good Bank's results of operations have been and will be affected by the level of impairment charges applied to their respective loan portfolios. In addition, Good Bank provides unsecured lending and focuses on providing loans and other products to lower and middle income customers and, accordingly, its loan portfolio displays a higher proportion of impaired loans when compared to other large South African banks whose loan portfolios are primarily composed of secured lending and loans to a broader spectrum of customers. As a result, net impairment charges could grow as a percentage of gross loans as Good Bank seeks to grow its loan portfolio.

Good Bank underwrites new loans utilising in-house-developed statistical scorecards, various affordability calculations as well as a number of business rules, which are monitored on a monthly basis and adjusted when necessary. Despite these controls, it is possible that they will not function as intended due to external market factors or human or IT errors. Furthermore, credit methodologies are fallible by their very nature. Their actual performance depends on customers behaving as predicted by statistical models and is dependent on various external factors, such as economic conditions, and internal factors, such as collections strategies. If any of these controls fail and customers fail to repay their loans at a higher rate than anticipated, this could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank is exposed to liquidity risk.

Liquidity risk is the inability to discharge funding or trading obligations as and when they fall due. Liquidity risk is compounded in Good Bank's business due to the fact that it does not have transactional banking capabilities or access to significant retail deposits and, therefore, relies significantly on wholesale funding to a greater degree than other banking groups in South Africa that fund a significant portion of their operations through retail deposits. Good Bank's liquidity risk is further compounded by its need to re-establish itself as a reliable counterparty in the domestic and international capital markets due to the negative publicity surrounding the Curatorship, which has damaged Good Bank's market reputation. For more information on Good Bank's funding and capital arrangements, please see section 4.4.13.

As a result of the implementation of the African Bank Restructuring, Good Bank anticipates generating relatively higher levels of cash due to the extension of maturing liabilities inherent in the African Bank Restructuring and surplus collections over disbursements in the short term. However, in the medium and long term, Good Bank will require access to wholesale funding and its ability to do so on acceptable terms, or at all, depends on a variety of factors, such as general market conditions, Good Bank's performance in discharging its funding or trading obligations, confidence in the South African banking system in general, systemic liquidity constraints, trading volumes, Good Bank's credit ratings and credit capacity, short- and long-term maturity mismatches and customers' and funders' perceptions of Good Bank's strategy and financial prospects. Unfavourable trends in any of the foregoing factors could result in an inability of Good Bank to raise wholesale funding, resulting in a liquidity shortage. If traditional funding sources previously accessed by African Bank are unavailable to Good Bank, it would be required to seek to utilise other, possibly more expensive, sources to meet its funding needs, which could decrease Good Bank's net margins and have a material adverse effect on its business, financial condition, results of operations and prospects.

Good Bank is exposed to funding and interest rate risk.

A major portion of Good Bank's initial domestic funding referred to in section 4.4.12 will be from fund managers in South Africa. However, legislation in South Africa restricts the exposure that such fund managers may have to an individual bank and, accordingly, Good Bank may need to obtain alternative sources of funding in the future. There can be no assurance that such financing will be available, when required, on commercially acceptable terms or at all.

Good Bank is also exposed to funding concentration risk. The Exchange Control Regulations restrict the export of capital from South Africa without the approval of the Financial Surveillance Department of SARB. The Exchange Control Regulations limit the extent to which Good Bank can borrow funds from non-South African sources for use in South Africa. This has led to banks in South Africa having to rely on debt funding from South African corporates, particularly by local South African fund managers (that are the largest depositors and funders in the South African banking market).

The restrictions imposed by the Exchange Control Regulations also limit individuals and corporates from making deposits or otherwise remitting currency outside of South Africa. Relaxation or immediate elimination of current 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 Rand-denominated capital outflows, this could adversely affect South Africa's economy through possible depreciation of the Rand or an increase in interest rates (as South Africa has a fully floating exchange rate and a flexible interest rate policy), which could in turn have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Even if Good Bank is able to access funding, it may face increased borrowing costs as a result of interest rate volatility or the credit rating of South Africa. Good Bank earns interest from loans and other assets, and pays interest to its depositors and funders. In a low or declining interest rate environment, interest income tends to fall with an associated decline in the cost of funding. Conversely, in a rising or high interest rate environment, interest income tends to increase with an associated rise in the cost of funding. Failure to effectively manage the extent to which the change in interest income is offset by the corresponding change in the cost of funding, which is particularly challenging in a volatile interest rate environment, could affect Good Bank's cost of funds and profit, which could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank is exposed to market risk.

Good Bank's liabilities include the USD and CHF notes issued under the African Bank EMTN Programme. These USD and CHF notes are hedged by a combination of derivative hedging trades and foreign currency cash holdings at the commencement of the Base Case Period. However, imbalances may arise through the Base Case Period primarily due to the non-alignment of cash flows between the derivative hedging trades and the payment of interest on the USD and CHF notes, which typically exceed the interest earned on the foreign currency cash held as a hedge. While the potential impact of these imbalances on Good Bank's income statement has been calculated with reference to the forecast exchange rates set out in section 5.6.4 of Annexure A to this Offer Information Memorandum and capital has been allocated for this market risk as described in section 5.7 of Annexure A, there can be no assurance that the estimates and assumptions on which the forecast exchange rates are based or the capital amounts allocated will be sufficient to cover any losses due to further ZAR depreciation against USD or CHF.

If losses due to this depreciation are greater than anticipated, Good Bank's actual results may be materially less favourable than the forecast financial results or the estimates and assumptions on which the forecast financial results are based. Any such changes could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank could be adversely affected by changes to its credit rating or that of South Africa.

Good Bank intends to obtain a credit rating. Once obtained, such credit rating will affect the cost and other terms upon which Good Bank is able to obtain funding. It is anticipated that rating agencies will regularly evaluate Good Bank and their ratings of Good Bank's long-term debt will be based on a number of factors, including capital adequacy levels, quality of earnings, credit exposure, Good Bank's risk management framework and funding diversification.

A downgrade or potential downgrade of the South African sovereign rating, a change in rating agency methodologies relating to systemic support provided by the South African sovereign or a change in the long-term foreign and local currency issuer default ratings for South Africa (which were 'BBB-' (stable outlook), 'Baa2' (negative outlook) and BBB- (negative outlook) as at December 2015) from Fitch Ratings Limited, Moody's and Standard & Poor's Credit Market Services Europe Limited (Frankfurt Branch), respectively, could increase the cost of financing of the South African public debt, which may result in increased taxation and lower government spending in South Africa, as well as raise the cost of funding for Good Bank and reduce access to capital markets and the profitability of Good Bank, all of which could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank is exposed to operational risk.

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

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

In particular, Good Bank's lending platform is enabled and supported by an IT system that was designed for African Bank's business model, and is a core element of Good Bank's credit scoring process. Both the Good Book and the Residual Book will be administered on this IT system, which may not operate as expected due to increases in usage, human error, fraud, unauthorised access, computer viruses, malicious hacking, physical damage to IT centres and software or other hardware malfunctions. Any failure of Good Bank's IT and communications systems, or third-party infrastructure on which Good Bank relies could lead to significant costs and disruptions that could adversely affect the operational or financial performance of the business as well as harm Good Bank's reputation, cause Good Bank to breach its obligations as a regulated entity and/or attract increased regulatory scrutiny.

Good Bank outsources certain IT and communication services to third-party providers. If a third party provider fails to provide Good Bank with timely or adequate services, Good Bank may be required to source these services at a higher price than anticipated and could face delays caused by this failure or delay. This could adversely impact Good Bank's profitability, as there can be no assurance that it will be able to pass on any increased costs to its customers.

In addition, if Good Bank delays or fails to enhance its IT and communication systems, or fails to engage competent third parties to do so, it may not be able to execute its business strategy or meet the expectations or changing demands of its clients, which could result in Good Bank's inability to compete successfully in the market and, therefore, could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

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

Good Bank collects and processes personal data (including names, addresses, age, bank and credit card details and various other personal information) from its customers, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws and industry standards in South Africa (including in particular the Protection of Personal Information Act, 2013 (the "**POPI Act**"). The POPI Act is intended to promote the right to privacy entrenched in the Constitution of South Africa, whilst simultaneously protecting the flow of information and advancing the right of access to information. The POPI Act prescribes the rules and practices which must be followed when processing information about individuals, has introduced certain minimum conditions such as acquiring customer consent before processing personal information and provides for the establishment of an independent regulator to enforce these rules, rights and practices.

These laws and standards impose certain requirements on Good Bank in respect of the collection, use, processing and storage of such personal information. For example, under South African data protection laws and regulations, when collecting personal data, certain information must be provided to the individual whose data is being collected. This information includes the identity of the data controller, the purpose for which the data is being collected and any other relevant information relating to the processing. There is a risk that data collected by Good Bank and its appointed third parties is not processed in accordance with notifications made to, or obligations imposed by, data subjects, regulators, or other counterparties or applicable law. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potentially inaccurate rating of risks, any of which could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank is also subject to certain data protection industry standards, and may be contractually required to comply with those standards. For example, as a major processor of payments from payment cards, Good Bank is required to comply with the Payment Card Industry Data Security Standard as part of its contractual obligations to merchant acquirers.

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

Good Bank operates in a highly regulated environment which is subject to change.

Good Bank is subject to regulatory supervision by, among others: (i) the NCR, who is responsible for overseeing activities which fall within the ambit of the NCA, (ii) the Registrar of Banks, who oversees activities falling within the ambit of the Banks Act and the Regulations Relating to Banks, and (iii) the FSB (the Registrar of Financial Services Providers), which is responsible for overseeing activities which fall within the ambit of the Financial Advisory and Intermediary Services Act 2002 (as amended) (the "**FAIS Act**"). Consequently, Good Bank is subject to on-going regulation and the associated regulatory risks including the effects of changes in laws, regulations, policies and interpretations. See "*–Change of Law*".

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

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

The NCA and unsecured lending

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

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

On 6 November 2015, the Department of Trade and Industry (the "DTI") published the New NCR Regulations which, most significantly, reduce the maximum prescribed interest rate on unsecured credit transactions from 2.2*Repo Rate + 20 per cent. to Repo Rate + 21 per cent. (which, based on a Repo Rate of 6.75 per cent. at the date of this Offer Information Memorandum, is a reduction of approximately 7 per cent.). The cap on credit facilities is proposed to reduce from 2.2*Repo Rate + 10 per cent. to Repo Rate + 14 per cent. In addition, caps on amounts which can be charged for credit life insurance have been proposed. See *"–Limit on credit life premiums* As a result of these amendments, Good Bank may need to alter its allocation of capital across the credit risk curve, resulting in certain customers receiving loan offers that are smaller than what they had requested.

Any reduction in the rate of interest on loans could have significant repercussions for the industry as a whole and, in particular, Good Bank's ability to continue to pursue its business model successfully and profitably given the historic concentration of African Bank's lending business to customers with lower and middle incomes, which could have a material adverse effect on Good Bank's financial condition, results of operations and prospects.

The Banks Act and regulations relating to banks and liquidity

Good Bank is required to maintain minimum levels of capital as set out in the Banks Act and the Regulations Relating to Banks. Any failure to maintain the required minimum capital ratios may result in sanctions against Good Bank, which may in turn impact Good Bank's ability to conduct its business or achieve growth. Moreover, the maintenance of adequate capital and liquidity is also necessary to afford Good Bank financial flexibility in dealing with any turbulence and uncertainty in the global and domestic economies.

The Basel III proposals, which were agreed by the Governors and Heads of the Basel Committee on Banking Supervision ("**BCBS**"), and endorsed by the G20 leaders at their November 2010 Seoul summit, have been adopted in South Africa, and were implemented from 1 January 2013, with various phases and transitional arrangements to be implemented through to 31 December 2018. SARB is engaged with the banking industry in respect of the domestic application of elements of Basel III where the regulators are entitled to exercise national discretion. SARB is expected to provide regulations or guidance on certain aspects of Basel III which are yet to be implemented. As such, future regulatory reforms, including for example, increases in the regulatory minimum capital or liquidity requirements, and the full implementation of the minimum standards for funding liquidity in South Africa, pursuant to Basel III, could have a material adverse effect on Good Bank's business, financial condition and results of operations.

Banks Amendment Act, 3 of 2015

Following the recent amendments to the Banks Act introduced by the Banks Amendment Act 3 of 2015, the curator of a bank who applies for permission to effect a transfer of assets or other transaction contemplated in section 54 of the Banks Act, must report to the Minister of Finance or the Registrar of Banks (as the case may be) on the expected effect of the relevant transaction on the bank's creditors and, in particular, on whether (i) the creditors of the bank will be treated in an equitable manner and (ii) a reasonable probability exists that a creditor will not incur greater losses, as at the date of the proposed transaction, than would have been incurred if the bank had been wound up in terms of section 68 of the Banks Act on the date of the proposed transaction.

The Minister of Finance or the Registrar of Banks (as the case may be) must, in addition to the requirements of section 54 of the Banks Act, now also consider the curator's report on the abovementioned matters in making his or her decision whether or not to approve the relevant transaction.

However, the Minister of Finance or the Registrar of Banks (as the case may be) may consent to the relevant transaction notwithstanding the fact that the effects referred to above are not achieved, if the transaction concerned is nevertheless in the opinion of the Minister of Finance or the Registrar of Banks (as the case may be) reasonably likely to promote the maintenance of (i) a stable banking sector (ii) public confidence in the banking sector.

Limit on credit life premiums

The National Credit Amendment Act, 2014, included a provision empowering the Minister of Trade and Industry, in consultation with the Minister of Finance, to prescribe the limit in respect of the cost of credit insurance that a credit provider may charge a consumer. See *"—The NCA and unsecured lending"*.

On 13 November 2015, the South African Department of Trade and Industry published draft "Credit Life Insurance Regulations, 2015" for comment, which includes, among others, a proposal to limit the cost of credit life insurance. These draft regulations propose that the maximum cost that a credit provider may charge a consumer in relation to credit life insurance, which a consumer is obliged to maintain for the duration of the credit agreement, may not exceed ZAR4,50 per ZAR1 000 (including the cost of any commission, fees or expenses) of the deferred amount, calculated on the total of the consumer's outstanding obligations under the credit agreement. If the credit life insurance cover provides that a consumer's total outstanding obligations will be settled in the event of the consumer being temporarily disabled or being unable to earn an income, the proposed regulations permit that the maximum prescribed limitation of the cost of credit life insurance may be increased by an additional ZAR1,00 per ZAR1 000. The draft regulations also propose that the consumer is given the right to substitute an insurance policy of the consumer's choice at any time after the credit agreement has been entered into if the premium and benefits under the new policy are the same as or better than those under the current policy. There remains some uncertainty about the final details of and timelines for the implementation of any such cap on the cost of credit life insurance.

If, as a result of these powers, the maximum cost that a credit provider may charge a consumer in respect of credit life insurance is prescribed at a level which leads to insurers limiting insurance benefits in terms of credit life policies, this may lead to more of Good Bank's customers not having sufficient insurance cover for eventualities, which in turn may lead to higher credit losses for Good Bank. Increased credit losses will lead to Good Bank cutting back on new lending. In addition, Good Bank may proceed to collect on the outstanding delinquent debt obligations from the customers directly, rather than recovering it from insurance companies. Any such outcome may have an adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Retail distribution review

A discussion paper outlining the results of the Retail Distribution Review ("**RDR**") was released for comment by the FSB in November 2014. The paper proposes a number of far-reaching reforms to the regulatory framework for distributing retail financial products (such as credit-life insurance) to customers in South Africa.

A total of 55 proposals are put forward in the discussion paper, which are grouped around:

(a) the types of services provided by intermediaries to customers and product suppliers respectively;

(b) rationalisation of the range of relationships between product suppliers and intermediaries. Proposals under this heading also address the responsibility of product suppliers for advice and intermediary/outsourced services provided; and

(c) the types of intermediary remuneration models that should apply to the revised sets of services and relationships proposed, including measures to deal with conflicts of interest in the provision of financial advice.

RDR will require a review of the payment of commissions and fees for intermediary services, binder services and outsourced services between Good Bank and third party insurers (such as Guardrisk) in respect of credit life business offered through Good Bank's infrastructure to customers of Good Bank. When RDR is implemented, such services will have to be defined in more detail by Good Bank and remuneration must clearly be linked to the range of services that Good Bank performs on behalf of either customers or such third party insurers in the management of credit life business. There will also be more onerous obligations on Good Bank as a financial services provider ("**FSP**") in performing, for example, "low advice" services to customers where Good Bank's distribution models include limited advice; and at the same time more onerous obligations on such third party insurers to ensure Good Bank as their agent is acting in the best interest of customers.

There remains uncertainty about the final details of and timelines for the implementation of RDR. While it is anticipated that financial service income that Good Bank will receive as a result of its intermediary relationship with Guardrisk will reduce from the level of financial service income that African Bank historically received from its relationship with Stangen due to the implementation of RDR, Good Bank is not able to predict whether this will have a material impact on Good Bank's financial condition, business or results of operations.

Financial Sector Regulation Bill

The Financial Sector Regulation Bill (the "**FSR Bill**") which was published for comment in December 2014 proposes to introduce significant reforms to the South African financial sector regulatory framework. The FSR Bill gives effect to the South African Government's decision to move towards a "twin peaks" model of financial regulation for South Africa. The FSR Bill provides for the establishment of two new regulators, namely the Prudential Authority and the Financial Sector Conduct Authority. As a bank, credit provider and financial services provider, Good Bank is likely to be subject to regulatory oversight by both of the proposed new regulators. National Treasury intends for the proposed reform measures to be implemented in two phases. Phase 1 will see the establishment of the two new regulators and assignment of powers (through the FSR Bill) to them. Phase 2 will involve the amendment or replacement of specific laws with laws that are in line with the twin peaks model of regulation. Current indications are that the FSR Bill will enter into effect in April 2016. As the contents of the FSR Bill and the regulations thereunder have not yet been finalised, Good Bank is not able to predict whether it will have a material impact on Good Bank's financial condition, business or results of operations.

On 13 August 2015, National Treasury, SARB and the FSB published for public comment a discussion document titled "*Strengthening South Africa's Resolution Framework for Financial Institutions*" which sets out the motivation, principles and policy proposals for a strengthened framework for the resolution of designated institutions in South Africa. The document sets out how the special resolution framework for so-called "designated resolution institutions" will apply to banks, but highlights that further work will be undertaken to develop specific proposals on applying the special resolution framework to non-bank financial institutions, financial market infrastructure and financial conglomerates. The document is, at this stage, only a position paper and is intended to solicit public comment and serve as a basis for further industry discussions and preparation for the drafting of the Bank Resolution Bill.

Good Bank may be subject to government and regulatory investigations of the financial sector.

A number of lenders in South Africa, including African Bank, are subject to reviews and investigations by the NCR for possible non-compliance with the NCA and Good Bank may be subject to such reviews and investigations in the future. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the financial sector. Consequently, Good Bank may be requested by the NCR to provide further information or otherwise cooperate with governmental authorities in the conduct of future reviews and investigations. Although there can be no assurance as to the ultimate outcome of such reviews and investigations, Good Bank has no reason to believe that any such reviews or investigations will uncover or reveal any material deviation from prudent lending practices, which could have a material adverse effect on the business, financial condition, results of operations and prospects of Good Bank.

Potential regulatory investigations could also arise in connection with other applicable regulations and cause reputational damage to Good Bank's brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical. Failure to appropriately manage conduct and reputation risks may reduce directly or indirectly, the attractiveness of Good Bank to stakeholders, including customers, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business, reduced workforce morale, and difficulties in recruiting and retaining talent. Any of the foregoing could have a material adverse effect on Good Bank's operations, financial condition and prospects.

Uncertainties relating to the interpretation of certain regulations could adversely affect Good Bank.

The interpretation of regulations by courts is subject to a number of uncertainties and, therefore, the outcome of their interpretation by the courts in South Africa is not predictable. These courts may apply or interpret regulatory standards or requirements differently from the interpretation of Good Bank. Accordingly, there is a risk that certain transactions, agreements or other actions by Good Bank could be held to be invalid, non-compliant or in breach of applicable law, which could expose Good Bank to the risk of regulatory proceedings or private litigation and potentially result in costly and lengthy appeal court proceedings, any of which could have a material adverse effect on Good Bank's reputation, business, financial condition, results of operations and prospects.

Good Bank is exposed to the risk of fraud, bribery and corruption.

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

Good Bank's operations may be disrupted by increased trade union activity in South Africa.

South Africa has regularly experienced high levels of trade union activity. A number of trade unions in various industries have undertaken industrial action, including strikes, in South Africa over the course of 2012 to 2015, which have caused work stoppages and production losses. In addition, recent trade union activity in South Africa has resulted in above-inflation negotiated salary increases in certain sectors. The increase in trade union activity, and increased political pressure on labour-related matters, including public debates regarding the relaxation of labour laws, may increase the likelihood or frequency of industrial action in South Africa or impact labour negotiations.

If, as a result of further increased labour action, customers of Good Bank find themselves out of employment or on strike, these customers' ability to repay their loans to Good Bank could be affected, which may result in more bad debts held by Good Bank. In addition Good Bank may incur increased labour costs or losses due to increased industrial action. Any of these matters could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

HIV/AIDS poses risks to Good Bank in terms of lost productivity and debt collection.

Statistics South Africa estimated that approximately 5.5 million people, or 10 per cent., of the South African population was living with HIV in 2014. The socioeconomic impact of this pandemic on South Africa is and will continue to be significant. The incidence of HIV/AIDS in South Africa will likely lead to increasing absenteeism, increasing deaths from AIDS-related illnesses, increasing medical and other costs and decreasing productivity. It may also contribute to difficulty in recruiting and retaining employees or collecting outstanding debts from its customers.

Any direct or indirect further impact of HIV/AIDS on Good Bank's operations and financial condition will be determined by a variety of factors, including the cost and effectiveness of the voluntary testing and treatment programme deployed by Good Bank for the benefit of its employees, the incidence of HIV infection amongst Good Bank's employees and customers, the progressive impact of HIV/AIDS on infected employees' and customers' health and productivity and the medical and other costs associated with infection. Notwithstanding the fact that an HIV treatment programme was rolled out to employees of African Bank, it is not possible to determine with certainty Good Bank's costs of managing HIV/AIDS or the impact that HIV/AIDS may have on Good Bank in general. The incidence of HIV/AIDS amongst Good Bank's workforce and customers is beyond its control and a significant increase in such incidences could adversely impact its business, financial condition, results of operations and prospects.

Terrorist acts and other acts of war could have a negative impact on the business.

Terrorist acts, other acts of war or hostility and responses to those acts, may create economic, social and/or political uncertainties. If Good Bank is unable or fails to effectively manage these risks, such acts or events could have a material adverse effect on Good Bank's business, financial condition, results of operations and prospects.

Good Bank's insurance policies may not cover, or fully cover, certain types of losses.

Good Bank generally maintains insurance policies covering its fixed assets and operations as well as directors' and officers' liability insurance, in line with general business practices in South Africa, with policy specifications and insured limits, which Good Bank believes are adequate. Good Bank is insured against certain risks, including, fire, lightning, flooding, theft, fraud, vandalism and third-party liability. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. In particular, Good Bank's unsecured loan portfolio, its largest asset, is not insured. Furthermore, the scope of insurance policies maintained by and available to Good Bank may vary from that of insurance policies typically maintained by financial institutions in more developed economies. Any uninsured loss or a loss in excess of insured limits could adversely affect Good Bank's business, financial condition, results of operations and prospects.

Good Bank may be adversely affected by changes in financial reporting standards.

From time to time, the International Accounting Standards Board (the "**IASB**") changes the international financial reporting standards issued by the IASB that govern the preparation of Good Bank's financial statements. These changes can be difficult to predict and could materially impact how Good Bank records and reports its financial condition and results of operations.

For example, Good Bank, like most entities that hold financial assets subject to credit losses, will be affected by the issuance of IFRS 9: Financial Instruments ("**IFRS 9**"), part of the IASB's project ultimately intended to replace the current IAS 39: Financial Instruments: Recognition and Measurement standard.

A finalised version of IFRS 9 was issued in July 2014, and incorporates requirements for classification and measurement, impairment, general hedge accounting and derecognition. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). Like other financial institutions, Good Bank expects that IFRS 9 will significantly impact its financial statements, the full extent of which is still being considered.

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

All banking operations and various ancillary financial services in South Africa require certain licences and registrations from the various registrars that exercise their regulatory powers under the auspices of the FSB, the NCR and the Registrar of Banks. Although Good Bank will be registered as a bank before any New Debt Instruments are issued, the Registrar of Banks has the ability to cancel, suspend or revoke the registration or licence of Good Bank if it fails to comply with certain regulatory requirements. There is no assurance that Good Bank will be able to adhere to these regulatory requirements. A breach of the terms of a licence by any of Good Bank’s entities or the failure to obtain a licence in the future could result in cash flow difficulties and penalties which may include temporary administration of Good Bank by the Registrar of Banks and/or fines imposed by the Registrar of Banks on Good Bank, which may, in turn, affect Good Bank’s ability to fulfil its payment obligations, and would have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.