

STANLIB

African Bank Update

Focused Investing

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Answers to frequently asked questions

We have received a substantial number of queries from clients regarding their investments since the curatorship of African Bank in August last year. Please see below a list of frequently asked questions and answers which we trust will assist in answering some of your queries.

Junior (subordinate) fixed interest instruments:

The curator of African Bank indicated on 29 May 2015 how he plans to deal with the junior fixed interest investments issued by African Bank. What does the announcement mean?

The update affects only certain of STANLIB's "side pockets" or retention funds (as indicated in the table below). The new information allows us to assign a fair value to the junior fixed interest investments (also sometimes called subordinated debt) issued by African Bank. The South African Reserve Bank previously said that these investments would be valued at zero.

From the close of business on 29 May 2015, STANLIB has applied a prudent market-related revaluation of the side pockets. This has had a positive effect on your investments.

The performance figures we publish for the funds have always taken into account the main fund as well as the ABIL retention fund. Below is a table indicating what effect this had on the present performance of the funds.

	1 year performance to Friday 29 May 2015 (excluding side pocket)	1 year performance to Friday 29 May 2015 (including side pocket) pre revaluation	1 year performance to Friday 29 May 2015 (including side pocket) post revaluation	Impact of revaluation
STANLIB Income Fund	5.29%	4.95%	5.36%	0.41%
STANLIB Flexible Income Fund	4.89%	4.46%	4.94%	0.48%
STANLIB Aggressive Income Fund	13.01%	12.28%	12.49%	0.20%
STANLIB Bond Fund	7.21%	7.16%	7.22%	0.05%
STANLIB Prudential Bond Fund	6.84%	6.82%	6.83%	0.01%

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The table below illustrates the funds' proportional allocations between junior and senior debt.

Fund Name	Junior Nominal %	Senior Nominal %
STANLIB Income ABIL Retention Fund	19%	81%
STANLIB Flexible Income ABIL Retention Fund	16%	84%
STANLIB Aggressive Income ABIL Retention Fund	13%	87%
STANLIB Bond ABIL Retention Fund	25%	75%
STANLIB Prudential Bond ABIL Retention Fund	13%	87%

Which funds are affected by the revaluation of the junior debt?

The update affects STANLIB's Income, Flexible Income, Aggressive Income, Bond, Prudential Bond, Multi Manager Balance, Multi Manager Absolute "side pockets" or retention funds.

Does this mean I can access my funds in the side pocket or retention fund?

No, not yet. STANLIB continues to hold both the senior and junior fixed interest instruments in your side pocket. These instruments still cannot be traded and therefore you cannot yet access these funds. The curator has not given a clear timeline on when this will happen. We must caution that all financial instruments, including fixed interest investments in African Bank, are traded in an open market and as a result, valued in accordance to the market value of the day.

If and when the fixed interest investments in African Bank, currently held in side pockets, become tradable (and this is not guaranteed), the market will determine their value. Even when the "good" bank is created it may still take some time before the investments held in the retention funds become available to you. We will let you know as we get more information.

What did the curator say about senior fixed interest investments (senior debt)?

The good news is that this latest announcement confirms that senior fixed interest investors are on track to get 90% of their investment back in due course.

While it is good news, we must caution that there are still a number of steps that need to be taken before this process is fully resolved. STANLIB continues to hold the senior fixed interest instruments in your retention fund as these instruments still cannot be traded.

The curator has not given a clear timeline on when the instruments will become tradable.

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Will I earn interest on my investment held in the retention fund?

The Curator confirmed in previous SENS statements (26 September and 10 December 2014) that the senior fixed interest investments continue to earn interest.

However, as confirmed in the SENS of 14 August, this interest will remain suspended and will only be declared / distributed when the curator gives further instruction.

In the latest announcement (28 May 2015) we received no further information about when this might happen. As soon as we have clarity from the curator on any interest payments, we will start to accrue (earn) interest on the investments held in side pockets. This should increase the value of your side pocket. We will continue to keep you informed on progress.

How long will it take to resolve the African Bank matter and create the “good bank”, and thus release the investment held in the retention funds.

The curator has not yet said how long this will take, but as soon as we have clarity, we will let you know.

Can I disinvest from the STANLIB retention fund?

It is unfortunately not possible to disinvest from any African Bank retention fund right now, for two reasons:

Firstly, the curator has suspended trading in these assets – he has instructed that neither the capital nor the interest may be released without his final instruction.

Secondly, these assets are illiquid – this means they cannot be bought or sold, as the curator has removed the demand for them in the market. This means that we cannot sell your African Bank unit holdings in the retention funds for cash in order to pay them out to you.

We must caution that all financial instruments, including fixed interest investments in African Bank, are traded in an open market and as a result, valued in accordance to the market value of the day. If and when the fixed interest investments in African Bank, currently held in side pockets, become tradable (and this is not guaranteed), the market will determine their value.

Even when the “good” bank is created it may still take some time before the investments held in the retention funds become available to you. We will let you know as we get more information.

What is the difference between senior and junior fixed investments?

All listed companies can raise additional operating capital through either an issue of shares or an issue of corporate bonds, also referred to as debt instruments. The “seniority” of debt or bonds means the order in which these instruments are paid back to the investors, should the issuing company have insufficient funds, liquidate, or **be placed under curatorship, as was the case with African Bank.**

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Senior debt is paid out first, ahead of all other creditors. Junior debt refers to bonds that are unsecured or have a lower repayment priority.

What is a retention fund?

A retention fund, also known as a side pocket, is a way of separating illiquid assets (such as the African Bank bonds) from the rest of the fund. The affected assets are transferred into a separate retention fund, leaving the remaining tradable portion of the fund to operate unaffected.

African Bank bonds will remain in the retention fund for as long as they remain illiquid. The time frame to this resolution is still unknown.

Why was it necessary to create retention funds?

Side pocketing ensures the fairest treatment for all investors in the affected funds. They essentially removed the direct African Bank (ABIL) risk from our investors' tradable funds.

The retention funds ensure that any investor choosing to exit a fund does not leave all other investors carrying the weight of an illiquid holding. Here is an example:

Suppose a fund has total value of R100 000. R1000 or 1% of the fund is invested in ABIL debt and one of the investors wants to withdraw R10 000. STANLIB would need to sell the underlying assets to pay out this amount in cash.

Under normal circumstances, given the fund composition, 1% or R100 would be disinvested from ABIL assets and remaining R9 900 from the other assets.

But ABIL assets are not liquid right now, which means we can't sell the R100 of ABIL assets to make this withdrawal possible. To pay out this investor, we would need to disinvest the full R10 000 from the other assets.

After such withdrawal, the fund balance is R90 000, of which R1000 is still in ABIL assets and R89 000 is in other assets. Therefore, the percentage of ABIL assets in the fund has now increased to 1.11% ($1\,000/90\,000$) due to this transaction. In effect, the withdrawing investor has left the remaining investors with his share of ABIL asset. All remaining investors now have a higher exposure to the ABIL assets than they did before.

This is not fair to the remaining investors. The retention fund prevents this from happening.

For more information, please contact your financial adviser.