

Curro Holdings Limited R275m Senior Secured Notes Programme

South Africa Secured Bond Analysis – Tap Issuance Report

15 December 2014

Security class	Amount	Rating scale	Rating type	Rating	Outlook	Review date
5 Year – COH001	R150m	National	<i>Final, public</i>	A ⁻ (ZA)	Stable	15 December 2015
5 Year – COH002	R125m	National	<i>Final, public</i>	A ⁻ (ZA)	Stable	15 December 2015

Key counterparties:

Issuer/Borrower:

Curro Holdings Limited ('Curro')

Guarantee SPV:

Curro Security SPV (Pty) Ltd (RF)

Trustee of Guarantee SPV Owner Trust/

Security Agent:

Maitland Group (SA) Limited

Lead Arranger/Debt Sponsor/ Facility Agent:

PSG Capital Proprietary Limited ('PSG Capital')

Transfer/Paying/Calculation Agent

Rand Merchant Bank ('RMB') a division of

FirstRand Bank ('FRB')

Summary of Transaction:

Asset class	Secured Notes
Rating Senior Notes	'A ⁻ (ZA)'
Senior Notes Amount	R275m
LT unsecured rating Issuer Status	'BBB ⁻ (ZA)'/ 'Stable' Senior secured by selected schools.
Collateral value	R1.57bn
Interest Senior Notes:	
COH001	3M Jibar+2.75% p.a.
COH002	3M Jibar+2.60% p.a.
Interest payment frequency	Quarterly
Principal payment frequency	Bullet
Legal maturity date	26 November 2018
Negative pledge applicable	Yes
Cross default applicable	Yes
Early redemption possible	Yes, only tax related
Listing	Yes, JSE Ltd
Maturity date	26 November 2018 and 15 April 2019
Closing date	15 April 2014

Ratings History:

Stock Code	Initial Rating	LT rating	ST rating	Rating outlook
COH001	26 Nov '13	A ⁻ (ZA)	n.a.	Stable
COH002	17 Apr '14	A ⁻ (ZA)	n.a.	Stable
Stock Code	Last Rating	LT rating	ST rating	Rating outlook
COH001	17 Apr '14	A ⁻ (ZA)	n.a.	Stable
COH002	17 Apr '14	A ⁻ (ZA)	n.a.	Stable

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Transaction Summary

Global Credit Rating Co. ('GCR') has affirmed the *final, public* ratings of 'A⁻(ZA)' with a 'Stable' outlooks accorded to the Senior Secured Notes issued by Curro Holdings Limited (the 'Issuer') in December 2013 and April 2014 (collectively the 'Senior Notes') respectively (the 'Transaction'):

- ZAR 150m, Senior Secured Floating Rate Notes, maturing 26 November 2018, stock code COH001..... A⁻(ZA); Stable Outlook.
- ZAR 125m, Senior Secured Floating Rate Notes, maturing 15 April 2019, stock code COH002..... A⁻(ZA); Stable Outlook.

More recently, Curro has sought further funding from Standard Bank South Africa ('SBSA') which will see total Banking Funding secured by the Security Portfolio increase to R510m from R250m. This report serves to detail the impact of the new funding on the rating of the Senior Notes.

The existing Noteholders and ABSA Bank Limited ('ABSA') and SBSA ('Facility Providers') acceded to changes in the transaction documentation; thus the Senior Notes and the Facilities/Term Funding will be uniformly governed from a legal perspective. The *public* ratings accorded to the Senior Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Rating Panel Highlights

- Curro is a listed private school operator, with a proven operating model that has enabled rapid growth through acquisitions and development of new schools. Curro reports strong shareholder support, as evidenced by its fully subscribed rights issues. The Corporate rating (Issuer rating) accorded is premised on the ongoing management oversight and financial support of the majority shareholder, PSG Group Limited.
- Private schools are fixed capital intensive, albeit with long useful lives and being strongly cash generative when near full capacity. Once constructed/acquired, schools bear large fixed overheads but low variable costs. Profitability is thus determined by capacity utilisation, with breakeven capacities at 25%-35%.
- The domestic private school industry reports very robust prospects, with a growing middle class and a strained public education system providing strong impetus to Curro's growth trajectory.
- Curro reported elevated credit risk metrics at FYE13, albeit a function of the current high growth phase. In this regard, and though improved, net gearing and net debt to EBITDA registered at 58% and 656% at FYE13 (FYE12: 57% and 766%), while net interest cover amounted to 1.5x (F12: 1.1x). Excluding legally ring-fenced operations, net gearing and net debt to EBITDA would have been lower at 33% and 474% respectively, and net interest cover by EBITDA would amount to 2.8x.
- As per GCR's Corporate Rating Report on Curro Holdings, GCR considers, from a Corporate rating perspective, the net debt to leading EBITDA of 600% for Curro on a standalone basis (excluding ring-fenced operations) to be the maximum level of gearing for the long term Corporate credit rating of 'BBB⁻(ZA)'.
- The rating of the Senior Notes is derived by applying a notching approach, starting from the long term corporate credit rating of the Issuer. Based on fundamentals and prospects of Curro, GCR has accorded a 'BBB⁻(ZA)' long term national scale corporate credit rating to the Issuer with a 'Stable' outlook. A rating uplift of 3 national scale notches is deemed appropriate in this particular transaction.
- GCR analysed the Transaction by applying its: Global Master Criteria for Rating Corporate Entities (Aug'14); its Global Structurally Enhanced Corporate Bonds Rating Criteria (Oct'14); and with reference to its Curro Holdings Limited's Corporate Rating Report (Mar'14) and its Curro Holdings Limited R275m Senior Secured Notes – New Issuance Report (Apr'14).

Introduction

Curro Holdings Limited (the ‘**Issuer**’), issued R150m (COH001) in 5-year Senior Notes on the 26th of November 2013. The Senior Notes are listed on the interest rate market of the Johannesburg Stock Exchange (“JSE”).

The Issuer issued an additional R125m (COH002) in 5-year Senior Notes, under the auspices of its DMTN programme on the 15th of April 2014. The proceeds of the issuance (along with Facilities in place and expected to be in place) were and will be used by the Issuer to expand and improve its schools portfolio. Following the issuance of the COH002 Notes, the aggregate nominal amount of Senior Notes issued under Curro’s DMTN Programme has increased to R275m.

More recently, Curro sought further funding from SBSA in the form of R450m in Term Funding. This will, however, lead to the cancellation of the current R125m SBSA Facility and the cancellation of a R65m portion of the R125m ABSA Facility (R60m remaining). Curro expects to draw R375m of the new SBSA Term Funding in December 2014, with the remainder expected to be drawn in March 2015. Resultantly, R785m in debt will be secured by the SPV’s schools portfolio of R1.57bn. The school’s portfolio has risen in total value owing to the inclusion of a further R280m in new schools since April 2014 (detailed in *Appendix B*).

Words in bold or capitals are defined in the transaction documents, unless indicated otherwise.

The DMTN Programme

The Programme allows the Issuer to issue a wide variety of securities with different maturities and risk profiles. Securities issued may be listed on the JSE or another exchange. The aggregate Programme limit is R2bn.

Securities will be issued in series and each series may comprise one or more tranches. Each tranche will be accompanied by an applicable pricing supplement, detailing the specific features applicable to the tranche (e.g. the interest and repayment profile). The Issuer may issue either senior notes or subordinated notes. *Unless* specified differently in the pricing supplement, such notes will rank *pari passu* with all other unsecured, guaranteed and unsubordinated (or subordinated in the case of subordinated notes) obligations of the Issuer. The Senior Notes will be Senior Secured Notes.

The Issuer has the right to early settlement of the securities in the event of an adverse change in tax laws, resulting in the Issuer having to pay gross-up amounts to the noteholders. Moreover, the applicable pricing supplement may stipulate additional optional redemption possibilities for the benefit of the Issuer and/or the noteholders.

Events of Default

If an Event of Default occurs in relation to the Senior Notes, the ‘**Finance Parties**’ will notify the Secured Financiers and deliver a Decision Request with a view to taking a Decision as to whether any action is to be taken pursuant thereto. The Majority Secured Financiers by resolution may declare the Senior Notes immediately due and payable. This decision will be communicated to the Facility Agent via an **Acceleration Notice**. The following **Events of Default** apply, amongst others:

- Failure to pay amounts due under the Senior Notes;

- Failure to perform or observe other material obligations under the terms and conditions of the Senior Notes;
- An Insolvency Event occurs in relation to the Issuer or a Material Subsidiary.

Customary negative pledge and negative undertakings apply to the Senior Notes.

GCR expects to be notified sufficiently in advance if further notes are intended to be issued or if facilities secured by Security Portfolio detailed below are opened in order to re-assess the transaction on its merits. Please find a transaction diagram in *Appendix A*.

The Issuer

Curro’s national scale corporate credit rating is currently ‘BBB_(ZA)’, ‘Stable’/‘A3_(ZA)’ on the long term and short term scale, respectively. For more information on Curro, please refer to GCR’s corporate rating report on Curro published in March 2014.

The Guarantee SPV

The Guarantee SPV is a special purpose vehicle incorporated in 2013 in South Africa as a ring-fenced private company with limited liability. The Guarantee SPV is required to act in the best interests of the Secured Financiers and/or on the instruction from the ‘**Finance Parties**’. Finance Parties are defined as the Secured Financiers, the Trustee, the Facility Agent and/or the Security Agent and a Finance Party shall, as the context requires, meaning any one of them. Such parties are regarded as Finance Parties only once they have entered into the Inter-creditor Agreement.

All ordinary shares in the Guarantee SPV are held by the Guarantee SPV Owner Trust, with Maitland Group (SA) Limited (“Maitland”) acting as the trustee. The Guarantee SPV has 1 director that is independent from the Issuer. Deloitte & Touche have been appointed as the auditors of the Guarantee SPV and will conduct an audit on an annual basis.

In order to secure the claims of the Noteholders against the Issuer, the SPV will execute a limited recourse irrevocable guarantee for the benefit of the Noteholders. This guarantee is backed by a counter-indemnity and a security cession mechanism provided by the issuer for the benefit of the Guarantee SPV. The Issuer agrees to indemnify the Guarantee SPV in respect of payments to be made under the guarantee. The collateral backing this Issuer indemnification is the Issuer’s rights and interest in and to:

- First ranking continuing covering mortgage bonds registered in the name of the Guarantee SPV in relation to the schools that will serve as collateral in the Transaction;
- The insurance policies and any insurance proceeds which relate to the schools that will serve as collateral in the Transaction.

The collateral has been registered or ceded by the Issuer, as security to the Guarantee SPV. The Guarantee SPV has undertaken to provide a guarantee to the Finance Parties in relation to claims to be made under the Issuer Guarantee. The security backing the Guarantee SPV Guarantee will be the collateral as mentioned in the paragraph above.

Following an Event of Default, the Guarantee SPV will claim from the Issuer in terms of the Indemnity agreement, the amounts in respect of a claim received under the

relevant Guarantee (or realise the Security under the Security Agreement) for the benefit of the Secured Financiers.

Security Agent

Maitland Group (SA) Limited will provide management services to the Guarantee SPV upon a claim being lodged by the Finance Parties under the Guarantee SPV Guarantee. Such services include amongst others, ensuring the timely collection of amounts due in respect of the indemnity claims made against the Issuer upon an Event of Default and the payment of proceeds thereof to the Guarantee SPV, and attending to all administrative and operational issues in relation to the sale of the secured schools. The Security Agent is allowed to set-off any unpaid fees against any recoveries it may generate on behalf of the Guarantee SPV.

Rating Methodology of the Senior Notes

The rating of the Senior Notes is derived by applying a notching approach, starting from the long term senior unsecured corporate credit rating of Curro. In determining the appropriate number of rating notches to be applied, GCR compares the estimated overall recovery rate after a potential default of the Senior Notes with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries are higher than the assumed average recovery rate, a notching uplift may be applicable.

Recovery rate calculations*	Rands
Principal amount outstanding upon default	785,000,000
Assumed missed interest upon default	19,009,875
Assumed missed interest to give time to realise recoveries	77,582,517
Aggregate exposure Senior Noteholders	881,592,392
Assumed recoveries on sale of schools	(864,470,593)
Assumed sales and legal costs	55,011,765
Unsecured claim on Issuer	72,133,564
Assumed recovery on unsecured claim	0
Remaining claim	72,133,564
Overall estimated recovery rate	92%

* For more details, please see under *Appendix C*.

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 92% carries the qualification 'Excellent Recovery Prospects'. As is evident from the above table, the overall estimated recovery rate (which incorporates the changes in the Facilities) remained above 90% (the lowest recovery rate required for the 'Excellent Recovery Prospects' qualification). Resultantly, a 3 notch rating uplift on the national scale is deemed to be appropriate for the Transaction. Accordingly, the *final, public* rating accorded to the Senior Notes of 'A_(Z,A)' has been affirmed 'with a 'Stable' Outlook. Further information is provided in *Appendix C*.

Legal Opinion

GCR received a signed copy of the legal opinion prepared by South African transaction legal counsel (Bowman Gilfillan), and which was reviewed by Norton Rose Fulbright. GCR deemed the Legal Opinion obtained in November 2013 as still relevant for the Transaction.

GCR understands, amongst others, from the legal opinion that:

- The Security Trust SPV has the features of a bankruptcy remote vehicle.
- The Transaction complies with applicable regulations.
- The transaction documents are legal, valid, binding and enforceable.
- First-ranking mortgage bonds have been registered in relation to the schools serving as collateral under the Transaction.

GCR has been advised by the Arranger that:

- Upon enforcement of the security, the Guarantee SPV will call upon the Issuer to honour the capital commitment; if the Issuer is unable to honour the capital commitment the schools will be sold to honour the capital commitment.
- The insurance companies have acknowledged and consented in writing of the cession of the insurance policies, and have agreed to note the endorsement against the policies.

Tax Opinion

GCR received a signed executed copy of the tax opinion prepared by South African transaction legal counsel (Bowman Gilfillan), and which was reviewed by Norton Rose Fulbright. GCR deemed the Tax Opinion obtained in November 2013 as still relevant for the Transaction.

GCR understands from the tax opinion that there should be no taxes materially impacting the security structure. Please note that the Issuer is an operating entity subject to all applicable taxes.

Meaning of the Rating of the Senior Notes

The *final, public* ratings accorded to Senior Notes relates to ultimate payment of interest and principal. In effect, the rating accorded to these securities is an expected loss rating (which is a function of probability of default and loss severity), and relates to an assessment of the ability to meet ultimate (as opposed to timely) payment of interest and principal. The ratings exclude an assessment of the ability of the Issuer to pay any (early repayment) penalties.

The ratings of the Senior Notes incorporate recoveries potentially arising from the sale of the underlying collateral and can therefore not be compared with, for example, a traditional corporate credit rating (the latter, which is also an expression of expected loss, but refers to probability of default and an average historical loss given default for generalised senior unsecured debt).

If the rating of the Issuer changes, the ratings of the Senior Notes may also change, but not necessarily in the same quantum. The rating of the Senior Notes may also change if the estimated stressed value of the underlying collateral materially changes.

The ratings mentioned above are national scale credit ratings (as opposed to an international scale rating). National scale credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be accorded to financial commitments issued or guaranteed by the relevant sovereign state. National scale ratings are not intended to be internationally comparable. The suffix code identifies to which country the rating

relates; 'ZA' means Republic of South Africa. A Rating Outlook indicates the potential direction of a rating over the medium term, typically a one or two year period.

The rating of the Senior Notes will be reviewed at a minimum on an annual basis or as events warrant. GCR will perform regular surveillance on the Transaction. Surveillance reports will be made available to subscribers to GCR's information services

Rating Criteria Application

GCR analysed the Transaction by applying its Global Master Criteria for Rating Corporate Entities and its Global Structurally Enhanced Corporate Bonds Rating Criteria. Both Criteria are freely available on www.globalratings.net.

Other

Audit Opinion

GCR received audited financial statements relating to the Issuer per 31 December 2013. Auditors Deloitte & Touché issued an unqualified report on Curro's financial statements for the year ended 31 December 2013. Prior to this GCR also received Audited Financials for the period 2009 - 2012. The open market value relating to the schools before applying the recovery assumptions has been sourced from the Issuer. The Issuer operates on a 3 year valuation cycle, thus valuations were all done in 2014 (GCR also received valuation reports for the period spanning 2011-2013). The property valuations were subject to estimations provided by Appraisal Corporation, an independent property valuation company. In an instance where a property was valued by two property valuers, GCR will utilise the lower open market value of the relevant property in estimating recovery rate calculations.

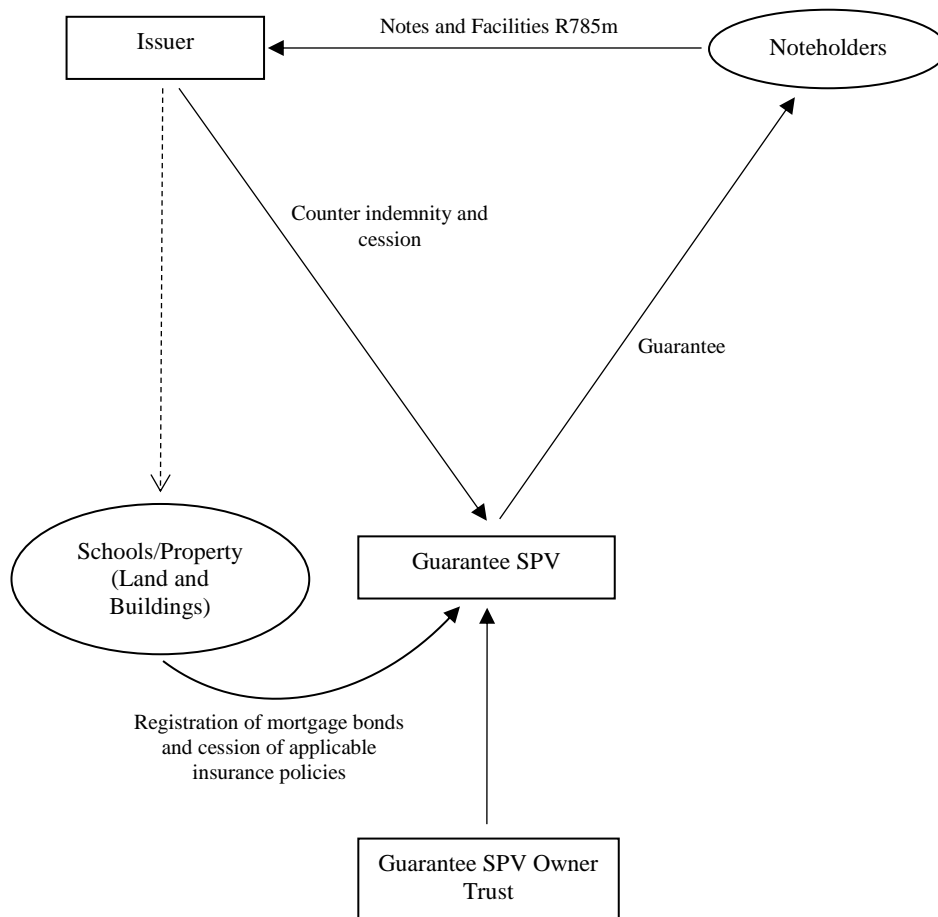
Transaction Documents

GCR has received satisfactory copies of all executed signed transaction documents relating to the Senior Notes. GCR also received the new Standard Bank Term Funding agreement and confirmation of the cancellation of the previous Standard Bank facility as well as the confirmation of the reduction in the ABSA facility. GCR expects to receive the final signed and executed documents of the afore-mentioned by Wednesday, 17th of December 2014.

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction (including the legal opinion), and should form their own views in this respect. They should not rely on GCR for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

Appendix A: Transaction Diagram



Appendix B: Overview of the performance of Curro schools and other important statistics for the 6 months ending 30 June 2014

Key school ratios				
	31-Dec-11	31-Dec-12	31-Dec-13	30-Jun-14
Number of schools	12	22	26	32
Number of learners	5,777	12,473	21,908	28,899
Median number of learners per school	481	567	759	834
Staff	654	1,630	2,387	2,932
Teachers	446	1,151	1,593	1,951
Learner/teacher ratio	13	11	14	15
Building size (m2)	75,000	169,024	261,004	277,593
Land size (ha)	107	153	188	255
Capital investment (Rands in millions)	328	782	1,076	327
Current campuses	80	223	602	160
New campuses	175	237	242	37
Acquisitions	73	322	232	130

The tables below illustrate the J-Curve effect from newly established schools to more mature schools.				
For the 6 months ended 30 June 2013:	Number of schools	Number of learners	EBITDA (Rands in millions)*	EBITDA margin
% of eventual capacity				
0 – 25	3	750	(1.1)	(9%)
25 – 50	11	6,913	13.9	14%
50 – 75	6	5,396	23.2	25%
75 – 100	6	8,849	39.4	36%
Total	26	21,908	75.4	24%
For the 6 months ended 30 June 2014:	Number of schools	Number of learners	EBITDA (Rands in millions)*	EBITDA margin
% of eventual capacity				
0 – 25	7	1,748	(1.4)	(5%)
25 – 50	7	5,888	23	28%
50 – 75	10	12,652	59.6	28%
75 – 100	8	8,611	59	36%
Total	32	28,899	140.2	29%

The tables below illustrate the profitability of Curro schools.				
For the 6 months ended 30 June 2013:	Number of schools	Number of learners	EBITDA (Rands in millions)*	EBITDA margin
Curro**	22	15,509	60.7	22%
For the 6 months ended 30 June 2014:				
Curro**	27	20,958	114.8	29%

* EBITDA at school level (excluding net head office costs and including teacher college results).

** Curro schools incorporating Select schools and Curro Castles.

Appendix C: Overview of Secured Schools that Serve as Security for the Senior Notes

Schools/Property	School type	OMV ¹ 2011 (Rands)	OMV ¹ 2014 (Rands)	Valuer/Valuation method	Valuation date
Aurora (Randpark Ridge)	Curro	54,100,000	197,300,000	Appraisal Corporation CC	2014/02/28
Ballito	Curro	95,000,000	95,000,000	Cost	2014/02/28
Bloemfontein	Curro	27,778,000	35,500,000	Appraisal Corporation CC	2014/02/28
Durbanville	Curro	69,300,000	102,200,000	Appraisal Corporation CC	2014/02/28
Embury	Curro Select	54,600,000	69,300,000	Appraisal Corporation CC	2014/02/28
George	Curro Castle (Nursery School)	20,000,000	20,000,000	Cost	2014/02/28
Hazeldean High School	Curro	19,800,000	84,800,000	Appraisal Corporation CC	2014/02/28
Hazeldean Primary School	Curro	40,300,000	49,900,000	Appraisal Corporation CC	2014/02/28
Krugersdorp/Bidi	Curro/Curro Castle	37,773,000	37,000,000	Appraisal Corporation CC	2014/02/28
Langebaan	Curro	34,500,000	53,600,000	Appraisal Corporation CC	2014/02/28
Mosselbay	Curro	19,600,000	21,500,000	Appraisal Corporation CC	2014/02/28
New Head Office	Office	20,000,000	16,200,000	Appraisal Corporation CC	2014/02/28
Roodeplaat	Curro	16,700,000	52,500,000	Appraisal Corporation CC	2014/02/28
Rosencastle	Office	10,500,000	31,600,000	Appraisal Corporation CC	2014/02/28
Serengeti	Curro	33,300,000	93,200,000	Appraisal Corporation CC	2014/03/06
Thatchfield (Centurion)	Curro	42,866,000	110,000,000	Appraisal Corporation CC	2014/02/28
Woodhill	Curro	128,500,000	222,500,000	Appraisal Corporation CC	2014/02/28
Curro Westbrook ²	Curro	N/a	29,286,772	Cost	2014/12/01
Curro Cilmor ²	Curro	N/a	37,837,013	Cost	2014/12/01
Curro Bryanston ²	Curro	N/a	8,641,364	Cost	2014/12/01
Curro van der Bilj ²	Curro	N/a	10,769,924	Cost	2014/12/01
Curro Castle Douglas Dale ²	Curro Castle (Nursery School)	N/a	7,524,385	Cost	2014/12/01
Curro Wilgespruit ²	Curro	N/a	35,305,257	Cost	2014/12/01
Embury Institute for Teacher Education ²	Institute	N/a	13,800,000	Appraisal Corporation CC	2014/08/12
Grantleigh	Curro	N/a	37,500,000	Appraisal Corporation CC	2014/08/11
Waterstone College	Curro	N/a	99,000,000	Appraisal Corporation CC	2014/04/17
Total		724,617,000	1,571,764,715		

¹ Desktop Valuations performed by Appraisal Corporation using the Profits method, in line with Curro's Triennial Valuation policy (an industry norm), conducted over the period February 2014 – April 2014.

² Added to the security pool in November 2014.

Appendix D: Recovery Rate Calculations Relating to the Security for the Senior Notes

1. Principal Amount Outstanding upon Default

This is the issuance amount of the Senior Notes and all outstanding bank facilities secured by the collateral (GCR assumes that for modelling purposes, all facilities are drawn down). Given the bullet nature of the Senior Notes and the fully drawn down bank facilities outstanding, the principal amount outstanding will not change during the life of the Senior Notes.

Capital Structure of Senior Secured Notes and facilities secured by security portfolio prior to new Standard Bank Term Funding

Security class	Amount (Rands)	Coupon	Maturity date	Payment frequency
Senior Secured Notes: (5 year floating rate notes): COH001	150,000,000	3M Jibar + [2.75]%	26 November 2018	Quarterly
Senior Secured Notes: (5 year floating rate notes): COH002 – indicative	125,000,000	3M Jibar + [2.60]%	15 April 2019	Quarterly
ABSA facility	125,000,000		April 2015	Monthly
Standard Bank facility	125,000,000		April 2015	Monthly
Total	525,000,000			

Capital Structure of Senior Secured Notes and facilities secured by security portfolio post the new Standard Bank facility

Security class	Amount (Rands)	Coupon	Maturity date	Payment frequency
Senior Secured Notes: (5 year floating rate notes): COH001	150,000,000	3M Jibar + [2.75]%	26 November 2018	Quarterly
Senior Secured Notes: (5 year floating rate notes): COH002 – indicative	125,000,000	3M Jibar + [2.60]%	15 April 2019	Quarterly
ABSA facility	60,000,000		April 2015	Monthly
Standard Bank Term Funding	450,000,000		December 2025	Quarterly
Total	785,000,000			

2. Assumed Missed Interest Payments upon Default

GCR assumes that upon default the last quarterly coupon is not paid. In addition, interest payments during the assumed recovery period (12 months) are sized. This equates to 4 quarterly coupon payments. GCR used the 5 year swap rate (7.72% as at 10 December 2014) plus the margin (2.75%/2.60%) as the combined assumed interest rate (10.02%/9.87% per annum) for the Senior Notes. The 5 year swap rate instead of 3M Jibar is used because the weighted average life of the Senior Notes is assumed to be 5 years. GCR then calculated the weighted average interest rate on all the facilities secured and used this to model the expected assumed missed interest payment and the interest payments over the recovery period.

3. Assumed Recoveries on Sale of Schools

GCR assumes that 12 months after default of the Senior Notes, all schools are sold through an auction process. GCR used the open market values ('OMV's') of the schools (as per February/March/April 2014) or cost for schools that were more recently built as the starting point for its analysis and followed the following steps to derive a stressed sales value for the portfolio of secured schools:

Given that no school fees will flow to or through the SPV, the technical difficulty involved in separating the intangible assets (brand value etc.) from the recoverable securities (land and buildings) and the ever growing occupancies (which will translate into higher valuations in the future) of the more recently built and established schools, a blended recovery modelling approach was deemed necessary. GCR used the independent Valuer's recently conducted valuations (Open Market Valuations – 'OMV's', Valuations conducted by Appraisal Corporation, registered professional valuers) as the basis for the security value, the Valuer's calculations are based on the value of the income streams the schools generate after costs are taken into account, into perpetuity. The valuations are only done every 3 years as per Curro's policy and in line with industry norms, GCR was provided with the valuations which were done in February/March/April 2014. For schools that were recently built GCR has continued to use the land and buildings value at cost. In regards to use of the OMV's as a proxy for value, GCR noted the acceptance of the valuations as a proxy for value by the bank facilities providers.

GCR noted the Valuer's valuation method takes into account a portion of intangible assets or assets separate to that of the recoverable security for the Transaction (e.g. Curro branding). GCR, however, noted the continued development of the schools serving as security (i.e. Curro has continued to add additional facilities for learners) and the increased occupancies being achieved as schools are opened or are developed. Given the afore, GCR felt the haircut applied was sufficient to account for the intangibles contained within the asset value whilst allowing for a more conservative haircut on schools with lower occupancies whose value is more closer to the underlying land and buildings (i.e. schools with low occupancy, which have recently been opened).

In its analysis GCR took a view that Curro provides a critical service and that in the event of a default another entity may be able to take over the running of the schools profitably, whilst the properties may be taken over by a third party. GCR noted that the underlying schools are all insured by Santam Limited (which is currently rated 'AAA_(ZA)') by GCR on a national claims paying ability scale).

In the event of a default GCR assumed another entity may be able to take over the properties but with a 30% auction haircut being applied to the properties' OMVs. GCR also assumed that a 15% demolition and professional fees haircut may be necessary should the properties be converted (e.g. costs associated with schools with lower vacancies being potentially converted or potential rebranding of schools by the acquirer).

5. Assumed Sales and Legal Costs

GCR applied 5% costs to the 'auction' stressed value of the schools.

6. Remaining Claim

GCR conservatively assumed that no recoveries will be received on the unsecured claim on Curro. This owing to, the Transaction Documents calling for the Trustee to approach Curro first, to honour their obligations should an event of default occur. However, if Curro is unable to honour their obligations, the schools held by the SPV (the properties and buildings) will then be sold. GCR had formed its previous analysis (pre-April 2014 issuance) upon Replacement Cost, however, it is deemed that significant stress applied to the OMV is sufficient to support the rating category accorded.

School	School type	OMV of Schools* – February/March/April 2014 ¹ (Rands)
Aurora (Randpark Ridge)	Curro	197,300,000
Ballito	Curro Select	95,000,000
Bloemfontein	Curro	35,500,000
Durbanville	Curro	102,200,000
Embury	Curro Select	69,300,000
George	Curro Castle (Nursery School)	20,000,000
Hazeldean High School	Curro	84,800,000
Hazeldean Primary School	Curro	49,900,000
Krugersdorp	Curro	37,000,000
Langebaan	Curro	53,600,000
Mosselbay	Curro	21,500,000
New Head Office	Office	16,200,000
Roodeplaat	Curro	52,500,000
Rosencastle	Office	31,600,000
Serengeti	Curro	93,200,000
Thatchfield (Centurion)	Curro	110,000,000
Woodhill	Curro	222,500,000 ¹
Curro Westbrook (Port Elizabeth)	Curro	29,286,772
Curro Cilmor	Curro	37,837,013
Curro Bryanston	Curro	8,641,364
Curro van der Bijl	Curro	10,769,924
Curro Castle Douglas Dale	Curro Castle (Nursery School)	7,524,385
Curro Wilgespruit	Curro	35,305,257
Embury Institute for Teacher Education	Curro	13,800,000
Grantleigh	Curro	37,500,000
Waterstone College	Curro	99,000,000
Total portfolio		1,571,764,715
<i>Less: Stress applied on the auction the properties (30%)</i>		(471,529,415)
		1,100,235,301
<i>Less: Additional stress applied for demolition/renovations (15%)</i>		(235,764,707)
		864,470,593
<i>Less: Sales and legal expenses (5%)</i>		(55,011,765)
Total Recoveries on Sale of Properties		809,458,828

* Varying valuation methods discussed in *Appendix B table*.

¹ The SPV's claim on this particular school ranks second to other claimants, thus the OMV is shown at the remainder of the OMV less the amount paid to 1st ranking claimants.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY

Applicable Pricing Supplement	A transaction document that describes the particulars of notes issued.
Average Life	The average lifetime of an asset or obligation. Typically measured from origination to cancellation or termination date.
Bankruptcy Remote	A feature, through real security and guarantees that reduces the enforceability of a creditor against a Special Purpose Vehicle. Typically a Security Special Purpose Vehicle should be bankruptcy remote.
Co-arranger	Arrangers who share responsibility of a transaction.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
Credit Rating	A rating accorded to the performance of either ultimate or timely payment of obligations.
Credit Rating Agency	A party that provides an opinion on the credit quality of assets, debt securities and companies.
Credit Risk	The probability or likelihood that a borrower will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Executed Documents	Final signed transaction documents.
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.
Insolvency	A debtor unable to pay a judgement of debt or who cannot meet its financial obligations and does not have sufficient realisable assets that can be attached in satisfaction of judgement or obligations. The debtor can apply for an administration order interims of the Magistrates' Court Act 32 of 1944 (South Africa).
Irrevocable	Not able to be changed, reversed, recovered and final.
JIBAR	Johannesburg Interbank Agreed Rate. A reference rate.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Lien	A right of retention of someone else's property due to expensed money or labour on property acquires a lien until payment is made.
Liquidity Risk	The risk that a financial instrument cannot be traded on its market price due to the size of the market.
Negative Pledge	A pledge made by a creditor that it will not incur any debt or event that may negatively impact the transaction or entity or material subsidiary.
Novation	An agreement between a creditor and debtor, where the old agreement is extinguished and a new obligation is created in its place.
Owner Trust	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Pari Passu	Side by side; at the same rate or on an equal footing.
Property	Movable or immovable asset.
Rated Securities	Debt securities that have been accorded a credit rating.
Rating Outlook	A Rating Outlook indicates the potential direction of a rating over the medium term, typically a one to two years period. An outlook may be defined as; 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Real Security	Obtained by a creditor when either as a consequence of agreement with a debtor or operation of law, the creditor acquires the right to be reimbursed from the proceeds of movable or immovable property of the debtor in the event of the debtor default.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Securitisation Vehicle	A Special Purpose Vehicle that has been created to guarantee the performance of the obligations of the Issuer that sold its assets to the Guarantee SPV.
Special Purpose Vehicle	A Special Purpose Vehicle that has been created to guarantee the performance of the obligations of the Issuer that sold its assets to the Guarantee SPV.
Stock Code	A unique code allocated to a publicly listed security.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Tranche	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
Unsecured Claim	Unsecured debt.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The Issuer and the Arranger participated in the rating process via face-to-face meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to the Issuer and the Arranger with no contestation of the rating; however, the Arranger did contest the use of replacement cost for the value of the security. Resultantly, through discussion and panel vote the Open Market Values were used as the basis for the value of the security.

The information received from the Arranger and other reliable third parties to accord the credit ratings included the latest Issuer's audited annual financial statements for the year ending December 2013 and the interim financials for the 6 month period ended 30 June 2014; an overview of the Issuer's Schools portfolio as per 31 October 2014; a performance forecast for the period beginning December 2012 and ending December 2025; the insurance policies covering the ceded schools; the applicable Valuation Reports; and the signed and executed transaction documents together with the relevant signed legal and tax opinions as well as the applicable signed Facility/Funding agreements.

The rating/s above were solicited by the Issuer of the Transaction; and therefore GCR has been compensated for the provision of the ratings.

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