

Name of client

| Planning by | Reviewed by | Performed by | Final review |
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| | | | |

02.22

Year end: **Year end date**

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Subordination agreement checklist

| AUDIT PROCEDURES | Exceptions | Performed by | Ref. |
|---|------------|--------------|------|
| 1. Compile a list of all creditors with whom the entity concluded subordination agreements or obtained letters of comfort / support and show the outstanding balance at year-end on each account. | | | |
| 2. In respect of the validity of the subordination agreement or letters of comfort / support, confirm by inspection that the agreements or letters: <ul style="list-style-type: none"> (a) Are in writing in the appropriate format; (b) Are signed by the creditor or a representative with due authority; and (c) Are accepted by the entity. | | | |
| 3. Determine by written enquiry whether the creditor is legally entitled to subordinate the debt e.g. the loan may have been offered as some form of security. | | | |
| 4. Ensure that the creditors are able and intend to honour and comply with the terms of the agreements or letters. | | | |
| 5. Consider whether the subordinated amount is of sufficient size that will restore the entity to commercial solvency. | | | |
| 6. Confirm by enquiry and inspection that the clauses of the agreement / letter in respect of the following aspects are adhered to: <ul style="list-style-type: none"> (a) Interest raised on the claim which is subordinated. (b) Amounts paid to the particular creditor, either accidental or on purpose. (c) Amendments to the agreement. | | | |
| 7. Ensure that the agreement / letter is still in effect at the audit report date. Refer to the clauses in respect of the entity's assets and liabilities position. | | | |
| 8. If the creditor is not a South African resident ensure that: <ul style="list-style-type: none"> (a) The creditor is an entity duly organised, validly existing and in good standing under the laws of the country of domicile of the creditor and has legal power and authority to enter into the subordination agreement and to exercise its rights and performs its obligations thereunder. (b) The conclusion of the agreement has been duly authorised and the agreement constitutes a legal and binding obligation of the creditor enforceable in accordance with its terms and is in proper legal form under the laws of the country of domicile of the creditor for enforcement therein. (c) All necessary governmental consents and approvals required in connection with the execution, delivery, performance, validity or enforceability of the agreement have been obtained and are valid. | | | |
| 9. Ensure that we have a copy of the agreement / letter on file. | | | |
| 10. Confirm that the existence and details of the agreement / letter are adequately disclosed in a note to the annual financial statements. | | | |