

Press release for Residual Debt Services Limited

31 May 2019

Residual Debt Services Limited (“RDS”) releases its unaudited condensed Interim financial results for the six months ended 31 March 2019

Results Highlights

- Anticipated forth payment of approximately R600 million to holders of the senior stub instrument to be made by the end of July 2019
- Three payments to holders of senior unsecured stub instruments totaling R1.8 million have already been paid
- Cash on hand of R3.9 billion (FY2018: R4.1 billion)
- Total assets (primarily advances and cash) of R4.3 billion (FY2018: R4.6 billion), and total liabilities of R9.6 billion (30 September 2018: R9.8 billion)
- Loss from operations of R116 million compared to a loss of R76 million for H1 2018
- R3 billion indemnity reserve and operating cash float of R500 million remains fully funded

The Curator, Craig Du Plessis noted: *"We are pleased to report that a further payment of approximately R600 million will be made to the senior unsecured stub instrument holders by the end of July 2019. This would result in total payments of R2.4 billion to these holders"*.

Financial results

RDS reported a loss from operations of R116 million for the six months ended 31 March 2019 compared to a loss of R76 million for the six months ended 31 March 2018. The increased loss from operations is primarily as a result of lower interest income on advances and a lower credit impairment reversal to income due to the declining size of the loan book. The above was partially offset by lower collections costs - also due to the declining size of the loan book.

Net advances decreased to R343 million for the six months ended 31 March 2019 compared to R528 million for 30 September 2018. RDS' primary focus is to collect loans made by RDS prior to curatorship that were not transferred to African Bank Limited (“ABL”). The reduction in net advances is therefore as a result of stable loan book collections, which are slightly ahead of expectations, albeit with reduced expectations for future collections as the loan book continues to decrease in size.

Total assets as at 31 March 2019 amounted to R4.3 billion and total liabilities amounted to R9.6 billion, resulting in negative equity of R5.3 billion. Cash on hand, which includes the indemnity reserve of R3 billion and the operating cash float of R500 million, amounted to R3.9 billion compared to R4 billion for the period ended 30 September 2018.

C Du Plessis was appointed as curator of Residual Debt Services Limited (the "Company") on 1 April 2018 by the Minister of Finance of the Republic of South Africa and pursuant to the Banks Act No. 94 of 1990 (as amended) to manage the affairs of the Company subject to the supervision of the Registrar. Please note, Mr Du Plessis acts in the aforesaid capacity.

SARB indemnity guarantee

As part of the Transaction, RDS provided a R3 billion indemnity to ABL in respect of assets transferred. The South African Reserve Bank (the "SARB") provided ABL a matching supporting guarantee for this indemnity, so that the indemnity could be honoured should RDS not have sufficient funds to cover any claim arising.

The SARB indemnity guarantee of R3 billion has been fully funded since 1 September 2017. As mentioned previously, any excess cash (in addition to the indemnity reserve of R3 billion and R500 million operating cash float) would be distributed to holders of the stub instruments in accordance with the distribution waterfall (firstly to the holders of the senior stub instrument, and thereafter to the holders of the subordinated stub instrument).

To date the curator has not received notice of any indemnity claim against the indemnity provided to ABL. Should there be no further notice of claims received at the date of expiry of the indemnity on 4 April 2024, the indemnity reserve balance will become available to make payments to the holders of the stub instruments in accordance with the distribution waterfall mentioned above.

Senior unsecured stub payment

It is anticipated that a forth payment of approximately R600 million will be made to holders of the senior stub instrument. This payment is expected to be made by the end of July 2019, which will bring the total payments to R2.4 billion.

Fair value of stub instruments

The fair values of the stub instruments have been based on two scenarios. Under the first scenario, the "Base" forecast, it is assumed that a full claim is made against the indemnity reserve of R3 billion. Under the second scenario, the "No claim" forecast, it is assumed that there is no claim against the indemnity reserve of R3 billion.

Both scenarios include the fair value assumptions that the expected cash flows derived from the remaining advances are for a 60 month period. Under the "Base" forecast scenario, it is also assumed that the operating cash float of R500 million will be paid to the holders of the senior stub instrument at the end of the 60 month period. Under the "No claim" forecast scenario, it is assumed that R3.5 billion will be paid to the holders of senior unsecured stub instrument at the end of the indemnity period (being 4 April 2024).

All future cash flows were discounted at a weighted average cost of capital ("WACC") of 14% NACM. Under the "No claim" forecast scenario, the R3 billion indemnity reserve and R500 million operating cash float are discounted at the 5 year risk free rate of 7.487% NACQ.

The fair value of the senior stub instrument under the "Base" forecast scenario (being a full claim against the indemnity reserve of R3 billion) is R2.219 billion. The fair value of the senior stub instrument under the "No claim" forecast scenario is R4.374 billion.

Further fair value assumptions impact by regulatory and industry developments

There are further specific regulatory and industry developments, including the potential impact of the National Credit Act (“NCA”) Amendment Bill and the potential impact of the proposed changes to the debit order collections regime, which may further impact the valuation of the stub instruments.

The outcome of these developments are still uncertain and it is not possible to accurately estimate the impact on the valuation of the stub instruments. However, assuming that there is a 10% decrease in collections as a result of the potential NCA changes to debit order rules (i.e. Debi check) and subsequent reduction in collections, the fair value of the subordinated unsecured stub instrument will decrease by R103 million to R221 million from R324 million (using a WACC of 14% on a NACM basis).

Fair value summary and possible distributions

A substantial recovery for holders of the senior unsecured stub instrument is expected, albeit that the timing of payments and quantum will be reliant on future performance of recoveries, and the extent of any claims against the indemnity reserve.

A small payment to holders of the subordinated unsecured stub instrument is anticipated as indicated in the “No claim” forecast scenario.

No distributions to African Phoenix Investments Limited (the shareholder of RDS) is expected.

South African Revenue Service (“SARS”)

RDS has open tax matters with SARS which primarily relate to the deductibility of impairments provisions in prior years. Due to the uncertainty in this matter, no deferred tax asset or liability has been raised in the financial statements.

ENDS

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On behalf of Craig Du Plessis, Curator of Residual Debt Services Limited

Conference call

A conference call is being held today at 11am SAST. Interested parties are requested to pre-register for this conference call at <http://www.diamondpass.net/8445092> and follow the instructions provided. The call is being recorded and will be available via the website www.residualdebtservices.co.za from 3 June 2019.

Notes to editors

RDS was placed under curatorship on 10 August 2014, when it was named African Bank Limited. RDS was still under curatorship at this reporting date, and will remain under curatorship for the foreseeable future. The company was successfully restructured on 4 April 2016 by means of a transfer of an identified portion of the assets and restructured liabilities; together with a fresh capital injection of R10 billion by the new shareholders into the new banking entity renamed African Bank Limited on that date.