

**Press release for Residual Debt Services Limited**

**22 November 2019**

**Residual Debt Services Limited (“RDS”) releases its audited annual financial results for the year ended 30 September 2019**

**Results Highlights**

- Four payments to holders of senior unsecured stub instruments totaling R2.4 billion have been paid to date
- Anticipated fifth payment of between R500 million and R550 million to holders of the senior stub instrument to be made by the end of January 2020
- Cash on hand of R3.8 billion (FY2018: R4.07 billion), consisting of an operational cash float of R500 million, indemnity reserve of R3 billion and surplus cash of R300 million
- R3 billion indemnity reserve and operating cash float of R500 million remains fully funded
- Total assets (primarily advances and cash) of R4.2 billion (FY2018: R4.6 billion), and total liabilities of R9.5 billion (FY2018: R9.8 billion)
- Loss from operations of R68 million compared to a loss of R97 million for FY2018
- Credit impairment reversal of R1.1 billion (FY2018: R1.2 billion)

The Curator, Craig Du Plessis noted: *"We have had another successful year in our collections efforts and are pleased to report that a further payment of between R500 million and R550 million will be made to the senior unsecured stub instrument holders by the end of January 2020. This would result in total payments of between R 2.9 billion and R2.95 billion to these holders"*.

**Financial results**

RDS continues to focus on the recovery of the remaining assets held following the Transaction. The principal assets are loans made by RDS (prior to the commencement of curatorship) that were not transferred to African Bank Limited.

RDS reported a loss from operations of R68 million for the year ended 30 September 2019 compared to a loss of R97 million for the year ended 30 September 2018. The reduction in the loss from operations as compared to the previous year is primarily as a result of lower collection costs (due to the declining size of the loan book and a reduction in the service level agreement cost negotiated with African Bank Limited during the year) and indirect taxation: VAT, which was partially offset by lower interest income on advances and a lower credit impairment reversal to income also due to the declining size of the loan book.

Net advances decreased to R398 million for the year ended 30 September 2019 compared to R528 million for 30 September 2018. The reduction in net advances is 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.

## RESIDUAL DEBT SERVICES LIMITED

(under curatorship)

Total assets as at 30 September 2019 amounted to R4.2 billion, senior unsecured liabilities of R3.98 billion (including the senior unsecured debt instrument of R3.93 billion) and subordinated liabilities of R5.5 billion (representing the contractual value of the subordinated unsecured stub instrument), resulted in negative equity of R5.27 billion. Cash on hand (which includes the indemnity reserve of R3 billion and an operational cash float of R500 million) amounted to R3.8 billion compared to R4.1 billion for the period ended 30 September 2018

### **SARB indemnity guarantee**

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

The SARB indemnity guarantee of R3 billion has been fully funded since 1 September 2017. Any free cash in excess of R3.5 billion will be utilised to make payments to the 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 instruments).

To date the Curator has not received notice of any claim against the indemnity provided to African Bank Limited. Should there be no further notice of claims received at the date of expiry of the indemnity on the 8<sup>th</sup> anniversary of the Transaction (being 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 fifth payment of between approximately R500 million and R550 million will be made to holders of the senior stub instrument. This payment is expected to be made by the end of January 2020.

### **Valuation of stub instruments**

The fair values of the stub instruments have been based on two scenarios. Under the first scenario, "full claim", it is assumed that there is a full claim against the indemnity reserve of R3 billion. Under the second scenario, "no claim", it is assumed that there is no claim against the indemnity reserve of R3 billion. In practice, it is possible that a combination of outcomes would materialise and that these potential outcomes may be different from the ranges projected. 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 "full claim" scenario, it is assumed that 100% (R3 billion) will be utilised and paid out evenly over a three-year period. Under this scenario, the holders of the subordinated unsecured stub instrument do not receive any cash as the senior unsecured stub holders are not settled in full.

## RESIDUAL DEBT SERVICES LIMITED

(under curatorship)

Under the “no claim” 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” scenario, the R3 billion indemnity reserve and R500 million operating cash float are discounted at the 5-year risk free rate of 6.958% NACQ as at 30 September 2019 (FY 2018: 8.116%).

The fair value of the senior stub instrument under the “full claim” scenario is R2.271 billion. The fair value of the senior stub instrument and the subordinated unsecured stub instrument under the “no claim” scenario is R3.896 billion and R1.092 billion respectively.

### **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 recovery for the holders of the subordinated unsecured stub instrument is anticipated as the fair value has increased significantly to R1.092 billion under the “no claim” scenario as compared to the previous year. The increase in the fair value is primarily due to:

- Actual collections have exceeded forecasts and thus forecasted collections have been recalibrated accordingly. This has been partially offset as a result of DebiCheck (which is a new regulatory requirement) being implemented;
- The R3.5 billion (comprising the R3 billion indemnity reserve and R500 million operating float) is discounted at the 5-year risk free rate of 6.958% NACQ as at 30 September 2019. The discount rate used in the previous period was the WACC of 14%;
- An additional 12 months of collections is forecast to be received; and
- A service level agreement cost reduction was negotiated with African Bank Limited during the current year which results in improved projected cash flows attributable to the subordinated stub holders.

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

### **South African Revenue Service (“SARS”)**

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

### **ENDS**

Louise Brugman 083 504 1186; louise@vestor.co.za

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

## RESIDUAL DEBT SERVICES LIMITED

(under curatorship)

### **Conference call**

A conference call is being held today at 12pm SAST. Interested parties are requested to pre-register for this conference call at <https://www.diamondpass.net/6155876> and follow the instructions provided. The call is being recorded and will be available via the website [www.residualdebtservices.co.za](http://www.residualdebtservices.co.za) on 25 November 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.