

Press release for Residual Debt Services Limited

18 June 2020

Residual Debt Services Limited ("RDS") releases its unaudited interim financial results for the six months ended 31 March 2020

Results Highlights

- Five payments to holders of senior unsecured stub instruments totaling R2.9 billion have been paid to date
- Anticipated sixth payment of between R400 million and R450 million to holders of the senior stub instrument to be made during July 2020
- Cash on hand of R3.76 billion (FY2019: R3.81 billion), consisting of an operational cash float of R500 million, indemnity reserve of R3 billion, and surplus cash
- R3 billion indemnity reserve and operating cash float of R500 million remains fully funded
- Total assets (primarily advances and cash) of R4.09 billion (FY2019: R4.22 billion), and total liabilities of R9.5 billion (FY2019: R9.49 billion)
- Loss from operations of R153 million compared to a loss of R116 million for the six months ended 31 March 2019
- Specific impairment provision of R841 million (FY2019: R1 020 million) in respect of non-performing loans

The Curator, Craig Du Plessis noted: *"The collection of the book continued to run smoothly during the period, albeit with reduced expectations for future collections as the book runs down. We anticipate that the Covid-19 pandemic is likely to affect collections going forward.*

We are pleased to report an anticipated sixth payment of between R400 million and R450 million to senior unsecured stub instrument holders which will be made during July 2020. This would result in total payments of between R 3.3 billion and R3.35 billion to these holders".

Financial results

The primary focus of RDS is to collect on loans made by RDS prior to the commencement of curatorship of African Bank that were not transferred to the new African Bank Limited.

RDS reported a loss from operations of R153 million for the six months ended 31 March 2020 compared to a loss of R116 million for the six months ended 31 March 2019. The increased loss from operations as compared to the previous six month period ending 31 March 2019 is primarily as a result of lower interest income on advances as a result of the decreasing book size and fewer performing loans. The loss was partially offset by reduced collections fees paid to African Bank Limited (as a result of the reduced collection as the book runs down) and operating costs. The Covid-19 pandemic will likely affect collections going forward.

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.

Residual Debt Services Limited (under curatorship) - Registration Number 1975/002526/06

Tel: 011 256 9000 **Address:** 59 16th Road, Midrand, South Africa **Postal:** Private Bag X170, Halfway House, 1685, South Africa

Company Secretary: M Chetty

NCR Registration number: NCRCP5. Residual Debt Services Limited (under curatorship) is an Authorised Financial Services and Credit Provider. RDC91017/16

Net advances decreased to R319 million for the six months ended 31 March 2020 compared to R398 million for 30 September 2019. 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.

Total assets as at 31 March 2020 amounted to R4.09 billion, senior unsecured liabilities of R3.62 billion and subordinated liabilities of R5.8 billion (representing the contractual value of the subordinated unsecured stub instrument). Cash on hand (which includes the indemnity reserve of R3 billion and an operational cash float of R500 million) amounted to R3.76 billion compared to R3.81 billion for the period ended 30 September 2019.

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.

Under the “full claim” scenario, it is assumed that the indemnity reserve of R3 billion will be called in full and paid out evenly over a three-year period.

Under the “no claim” scenario, the fair value of the senior stub instrument and the subordinated unsecured stub instrument is R3 567 million and R1 254 million respectively. It is assumed that R3 567 million will be paid to the holders of senior unsecured stub instrument and R1 254 million will be paid to subordinated stub instrument holders at the end of the indemnity period (being 4 April 2024).

Any surplus arising after covering the indemnity reserve and operating float of R500 million is released to creditors every six months thereafter based on their determined ranking.

The fair value of the senior stub instrument under the “full claim” scenario is R2 013 million.

No adjustments to the fair value of net advances and stub instruments have been made in relation to Covid-19 as the impact on RDS is currently uncertain despite considering subsequent events (primarily collections) until 31 May 2020. A 10% reduction in cash flows sensitivity has been performed on the stub valuations and the net advances fair values. The fair value of the net advances will decrease by R150 million from R1 499 million to R1 349 million. The fair value of the subordinated unsecured stub instrument will decrease by R167 million from R1 254 million to R1 087 million (using a WACC of 14%) in the scenario where the indemnity reserve is not claimed. In the scenario where the indemnity reserve is claimed in full, the fair value of the senior unsecured stub instrument will decrease by R138 million from R2 013 million to R1 875 million.

Senior unsecured stub payment

It is anticipated that a sixth payment of between approximately R400 million and R450 million will be made to holders of the senior stub instrument. This payment is expected to be made during July 2020.

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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.

As at 31 March 2020 the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims.

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 interim financial statements.

Legal proceedings

RDS has a dispute with Company Unique Finance (Pty) Ltd ("CUF") which is proceeding to arbitration. The matter is in relation to a transaction concluded in 2003 between the parties. The financial impact to RDS cannot be reliably determined at this stage and is also dependent on the outcome of the arbitration process. To the extent that any liability was to arise, such would rank *pari passu* with the senior unsecured stub instrument.

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 12pm SAST. Interested parties are requested to pre-register for this conference call at <https://www.diamondpass.net/1169593> and follow the instructions provided. The call is being recorded and will be available via the website www.residualdebtservices.co.za.

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. RDS shares are held by Weonit Projects (Proprietary) Limited ("Weonit"). Weonit acquired the shares of RDS from African Phoenix Investments Limited (the new registered name for African Bank Investments Limited ("ABIL")) on 31 December 2019. The change of shareholding has no impact on RDS or its creditors.

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