

Press release for Residual Debt Services Ltd

16 February 2017

Residual Debt Services Ltd releases audited full year financial statements for 12 months ended 30 September 2016

Results Highlights

- Loss from operations of R945 million (2015: R6 882 million loss)
- Profit for the year of R2 366 million after including various once off capital items totaling R3 311 million (2015: R7 212million loss)
- Capital items include
 - Profit of R657 million relating to recoveries on fully impaired Ellerines Holding Ltd and ABIL loan accounts
 - A once-off profit of R2 654 million on the sale of a loan book to African Bank
- Assets (primarily loan book and cash) of R4 399 million and liabilities of R 8 860 million, resulting in negative equity of R4 461 million.
- SARB loan fully repaid
- R3 billion indemnity fund projected to be fully funded by December 2017

Tom Winterboer, curator of Residual Debt Services Limited (under curatorship), today announced the first update following the successful launch of the new African Bank Ltd and release of the audited full year financial statements for the 12 months ended 30 September 2016.

T Winterboer was appointed as curator of Residual Debt Services Limited (the "Company") (previously African Bank Limited (under curatorship)) on 10 August 2014 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 Winterboer 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, Midrand, 1685, South Africa

Company Secretary: BW Unser

NCR Registration number: NCRP5. Residual Debt Services Limited (under curatorship) is an Authorised Financial Services and Credit Provider.

Financial results

The reporting entity is the old African Bank, now renamed Residual Debt Services Limited ("RDS"), which retained title to the remaining assets and liabilities after the successful restructuring of the new African Bank Limited on 4 April 2016. The financial results are effectively the combination of the first six months of the financial year, which were prior to the restructuring transaction of African Bank ("the transaction") and the second six months of the financial year, which reflect RDS trade after the transaction. RDS after 4 April 2016, is effectively the entity which is responsible for the realization of the run off book remaining after the transaction and the settlement of the remaining liabilities within that entity, including the now repaid SARB loan of R3.3 billion, the funding of the indemnity guarantee and the repayment of the stub liabilities subject to the availability of any remaining available cash balances.

These financial statements include the full annual results of RDS for the period from the Transaction. Highlights include, for the full year, split into the period before and after the Transaction where applicable include:

- A loss from operations of R945 million (2015 a loss of R6 882 million). This comprises a loss for the first half of the year of R987 million and then subsequent to the Transaction effective date, a profit of R42 million for the second half of the year.
- A profit for the year of R2 366 million (2015 a loss of R7 212 million) after including various one off capital items, one of which includes a gain arising from the Transaction of R 2 654 million. This once off profit represents the difference between the fair value and the carrying values of the assets and liabilities transferred to the new African Bank.
- Assets at 30 September 2016 of R4 399 million, with unsubordinated liabilities of R5 018 million, including the senior stub instruments, and subordinated liabilities of R3 842 million, representing the contractual value of the subordinated stub instruments, resulting in negative equity of R4 461 million.

SARB loan

RDS repaid the SARB transaction loan of R3.3 billion in full to the South African Reserve Bank ("SARB") on 1 September 2016. This loan and its associated accrued interest ranked for repayment purposes ahead of any payment on the stub instruments.

Indemnity guarantee

As part of the restructuring transaction, RDS provided a R3 billion indemnity to the new African Bank in respect of any losses that may be incurred in connection with the assets transferred. This indemnity is due to expire on 4 April 2024, being the eighth anniversary of the transaction. The SARB has provided to RDS a supporting guarantee for this African Bank indemnity, so that the indemnity can be honored even in circumstances where RDS does not yet have sufficient funds to cover any claim so arising. In these circumstances, the SARB guarantee to RDS would cover any shortfall between the value of a claim by African Bank and the available indemnity funds which RDS has built up to that point in time.

Any claim arising to the SARB from these indemnity guarantee arrangements has a priority ranking claim on the assets of RDS, after operational costs arising in the ordinary course of the curatorship, but before the stub claims.

Accordingly, having settled the SARB loan, cash in excess of that required for the ongoing operations of RDS is being accumulated in a so-called “indemnity reserve”. Once this reserve balance totals R3 billion, any further funds available will be utilised to provide periodic payments to senior stub instruments and thereafter subordinated stub instruments. As at 31 January 2016, the indemnity reserve totaled R1.7 billion, in addition to providing for an additional RDS operational float of R500 million. Current projections anticipate that this indemnity fund will be fully funded by December 2017.

Claims against the indemnity

The curator has not received any claims against the indemnity by African Bank to date.

Should there be no notice of claims received at the date of expiry of the indemnity on 4 April 2024, the reserve balance will become available to provide further payments against senior stub claimants and, if these have been satisfied in full, subordinated stub instruments.

Asset recoveries (Collections on loan book)

The curator’s focus is on collections against the loan book that was not transferred to the new African Bank. Collections on this loan book are slightly ahead of expectations, contributing to a decreasing book value.

Projected fair valuation of senior stub instruments

RDS has forecast the projected fair value of the stub instruments based on two scenarios. The first scenario is where the R3 billion indemnity is called in full and the second scenario is where the indemnity is not called upon at all. Both scenarios include the expected cash flows from RDS’s advances book for a 60 month future period, as at 30 September 2016.

These future cash flows were discounted at an assessed weighted average cost of capital (“WACC”) of 14.0%. The forecast value of senior stub instruments on a full claim on the R3 billion indemnity is R2 725 million. The forecast value of the senior stub instruments on a zero claim on the R3 billion indemnity is forecast to be R4 376 million.

Fair value summary and possible distributions

No dividend distribution to the shareholders of RDS, being African Bank Investments Limited (recently renamed African Phoenix Investments Limited), is forecast.

No payment to sub-ordinated stub holders is expected.

A partial settlement against the senior stub holders is anticipated, albeit that the timing and quantum of payments will be reliant on future collections on the loan book and the extent of any claims by African Bank against the RDS indemnity. Any payment against any claim will first apply against interest accrued and only thereafter against capital.

National Credit Regulator ("NCR") and legal proceedings

The NCR has announced an investigation into certain activities of RDS prior to curatorship, in respect of potential reckless lending. RDS is co-operating fully with the NCR and the review is

ongoing. No liability arising has currently been identified.

Other than any possible NCR outcome, no legal proceedings are ongoing or have currently been identified for future action.

If a liability should arise from the NCR investigation or any other legal proceedings, any such claim would rank alongside senior stub claims.

South African Revenue Service (SARS)

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

ENDS

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On behalf of Tom Winterboer, Curator of Residual Debt Services Ltd

Conference call

A conference call is being held today at 14h00 CAT. Interested parties are requested to pre-register for this conference call at <https://goo.gl/Q2oo4Y> and follow the instructions provided. The call is being recorded and will be available via the company website www.residualdebt services.co.za from Friday 17 February 2017

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 business 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. The assets and liabilities transferred on 4 April 2016 are referred to as “available for sale” in the comparative numbers for the year ended 30 September 2015.