

Final release for Residual Debt Services Limited

2 June 2022

Residual Debt Services Limited (“RDS”) releases its unaudited condensed interim financial results for the six months ended 31 March 2022

Commenting on the interim results, RDS Curator, Craig Du Plessis noted: *“RDS has had another successful six months in collecting the book with continued focus on late stage collections as electronic collections decrease. The collection of the book continues to run smoothly, albeit with reduced expectations for future collections as the book remains in “run down”.*

We are pleased to report an anticipated tenth payment of between R200 million and R250 million to senior unsecured stub instrument holders which will be made during July 2022. This would result in total payments of between R4.55 billion and R4.60 billion to these holders.”

Results Highlights:

- Nine payments to holders of senior unsecured stub instruments totaling R4.35 billion have been made to date;
- Anticipated tenth payment of between R200 million and R250 million to holders of the senior stub instrument to be made in July 2022;
- Cash on hand of R3.675 billion (FY2021: R3.670 billion), consisting of an operational cash float of R500 million, indemnity reserve of R3 billion and surplus cash held in current accounts and money market funds;
- R3 billion indemnity reserve and operating cash float of R500 million remains fully funded since September 2017; and
- Total assets (primarily advances and cash) of R3.802 billion (FY2021: R3.854 billion), and total liabilities of R9.635 billion (FY2021: R9.541 billion).

Financial results

The company reported a R146 million loss for the six month period ending 31 March 2022 compared to a loss of R97 million for the six months ended 31 March 2021. Operating costs reduced to R99 million from R133 million for the six months ended 31 March 2022 as a result of lower collection fees paid to African Bank as collections decreased.

Net advances decreased to R127 million for the six months ended 31 March 2022 compared to R184 million as at 30 September 2021 due to the book paying down and write offs. Actual collections were slightly ahead of expectations, which also contributed to the net advances decrease. The overall provision coverage increased to 76% from 71% due to the recalibration of the collections models and aging of the book.

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

Total assets as at 31 March 2022 reduced to R3.802 billion, compared to R3.854 billion as at 30 September 2021. Senior unsecured liabilities were reported at R2.601 billion and subordinated liabilities were reported at R6.964 billion which represents the contractual value of the respective stub instruments.

Cash on hand increased to R3.675 billion (R3.670 billion as at 30 September 2021). Benchmark interest rates increased during the period which yielded higher interest income.

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, with a senior unsecured stub instrument fair value of R1.211 billion it is assumed that the indemnity reserve of R3 billion will be called in full and paid out evenly over a period of two years. Under this scenario, the holders of subordinated unsecured stub instruments will not receive any payment.

Under the "No claim" scenario, with a senior unsecured stub instrument fair value of R2.646 billion, and a subordinated stub fair value of R1.358 billion, it is assumed that the indemnity reserve will not be called at all. Under this scenario, it is also assumed that the indemnity reserve will be paid to the holders of senior unsecured stub instrument at the end of the indemnity period (being 4 April 2024), with an additional portion being paid to the holders of the subordinated stub instrument.

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.

An overlay is held for the uncertainties relating to DebiCheck as cash flows are expected to reduce following the implementation on 31 October 2021. The overlay for DebiCheck, which was raised during September 2021, has been held static with an addition to the impairment allowance of R5 million.

The overlays relating to the Credit Amendment Bill were released in March 2022 due to the uncertainty on the implementation date of the Credit Amendment Act. The impact so far has therefore been minimal.

Covid-19 has had a minimal impact on collections of the loan book and therefore it is not possible to estimate the impact on the fair value of net advances and the stub instruments. No adjustments have therefore been made.

Senior unsecured stub payment

It is anticipated that a tenth payment of between approximately R200 million and R250 million will be made to holders of the senior stub instrument. This payment is expected to be made during July 2022.

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 provided African Bank Limited a matching supporting guarantee for this indemnity, so that the indemnity could be honored to the extent that RDS does not have sufficient funds to cover any claim arising.

As at 31 March 2022, the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims. The indemnity is due to expire on 4 April 2024, being the 8th anniversary of the restructured transaction.

RDS continues to engage with the SARB and African Bank to reduce the indemnity reserve, which has in principle been agreed between the parties, subject to the necessary Board and Committee approvals. Stub noteholders are therefore advised to continue exercising caution when dealing in the instruments until a further announcement is made in this regard.

South African Revenue Service ("SARS")

RDS has open tax matters with SARS which primarily relate to the deductibility of historical impairments provisions in prior years. Due to the uncertainty in this matter, no deferred tax asset or liability has been raised. The matter has advanced to an appeal stage at the courts.

Legal proceedings

RDS has a dispute and is in arbitration with Company Unique Finance (Pty) Ltd ("CUF"). The matter is in relation to a transaction concluded in 2003 between RDS (old African Bank) and CUF, whereby the ring-fenced business was transferred to CUF.

RDS' position is that the entire mortgage loan and asset-based lending business was disposed of and that all the related security which remains registered in RDS' name should have been transferred into the name of CUF. This position was supported in an appeal arbitration awarded in RDS' favour in December 2020.

RDS subsequently lodged a high court application seeking an order directing the Chief Registrar of Deeds to cause the title deeds of the relevant immovable properties to be endorsed in the respective Deeds Registries to reflect that the right, title and interest of RDS in the mortgage bonds and properties possession were transferred to CUF in October 2004 in terms of section 54 of the Banks Act 94 of 1990.

CUF opposed this application and the matter was heard in the Gauteng High court on 19 and 20 April 2022 and judgement reserved. The dispute is therefore on-going.

To the extent that a liability arises, such would rank *pari passu* with the senior unsecured stub instrument.

ENDS

RESIDUAL DEBT SERVICES LIMITED

(under curatorship)

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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 3pm SAST. Interested parties are requested to pre-register for this conference call at www.diamondpass.net/3724928 and follow the instructions provided. The call is being recorded and will be available via the website (www.residualdebtsservices.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.

The purpose of RDS during curatorship is to collect the outstanding advances retained by the company, maintain the required indemnity cash reserves as required by the South African Reserve Bank, and where excess cash is collected, to make payment to stub note holders. Due to the nature of the curatorship, the financial statements are not presented on a going concern basis.