

Final Press release for Residual Debt Services Limited

3 December 2020

Residual Debt Services Limited (“RDS”) releases its audited financial results for the year ended 30 September 2020

Results Highlights

- Six payments to holders of senior unsecured stub instruments totaling R3.3 billion have been paid to date (Total of R900 million paid during the reporting period)
- Anticipated seventh payment of between R350 million and R400 million to holders of the senior stub instrument to be made during January 2021
- Cash on hand of R3.78 billion (FY2019: R3.81 billion), consisting of an operational cash float of R500 million, indemnity reserve of R3 billion and surplus cash held in current accounts, money market funds and core income funds
- R3 billion indemnity reserve and operating cash float of R500 million remains fully funded
- Total assets (primarily advances and cash) of R4.07 billion (FY2019: R4.22 billion), and total liabilities of R9.56 billion (FY2019: R9.49 billion)
- Loss from operations of R223 million compared to a loss of R68 million for the year ended 30 September 2019

The Curator, Craig Du Plessis noted: *“Despite the Covid-19 pandemic, collections on the book performed well during the reporting period.*

We are pleased to report an anticipated seventh payment of between R350 million and R400 million to senior unsecured stub instrument holders which will be made during January 2020. This would result in total payments of between R 3.65 billion and R3.70 billion to these holders”.

Financial results

The purpose of RDS during curatorship is to collect the outstanding advances retained by the Company, build 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.

RDS reported a loss from operations of R223 million for the year ended 30 September 2020 compared to a loss of R68 million for the year ended 30 September 2019. The increased loss from operations as compared to the previous year ending 30 September 2019 is primarily as a result of lower interest income on advances and credit impairment reversals 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 lower collections fees as the book runs down.

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 R277 million for the year ended 30 September 2020 compared to R398 million for 30 September 2019. The reduction in net advances is as a result of stable loan book collections (which continue to perform ahead of expectations), albeit with reduced expectations for future collections as the loan book continues to decrease in size.

Total assets as at 30 September 2020 reduced to R4.07 billion from R4.2 billion as at 30 September 2019 primarily as a result of the decrease in net advances and cash. Senior unsecured stub instrument liabilities were reported at R3.36 billion and subordinated unsecured stub instrument liabilities were reported at R6.13 billion, representing the contractual value of the respective instruments.

Cash on hand, which includes the indemnity reserve of R3 billion and an operational cash float of R500 million and surplus cash held in current accounts, money market funds and core income funds amounted to R3.78 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, with a senior unsecured stub instrument fair value of R1 582 million 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 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 R3 373 million, and a subordinated unsecured stub fair value of R1 021 million, it is assumed that the indemnity reserve will not be called at all. Under this scenario, it is assumed that R3.2 billion 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 unsecured 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.

Overlays are held for the uncertainties relating to DebiCheck (the cash flow impact is expected from the planned implementation date of 1 October 2021) and the National Credit Amendment Bill (cash flow impact expected after a period of 6 months).

Given that COVID-19 has had a minimal impact on collections during the reporting period, it is not possible to accurately estimate the impact on the fair value of the net advances and the stub instruments and therefore no adjustments have been made to the respective disclosed fair values. Assuming that there is a 10% reduction on future collections, the fair value of the net advances will decrease by R118 million from R1 179 million to R1 061 million. The subordinated unsecured stub instrument will decrease by R122 million from R1 021 million to R899 million under the "No claim" scenario (using a 14% WACC).

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Under the "Full claim" scenario (using a 14% WACC), the fair value of the senior unsecured stub instrument will decrease by R101 million from R1 582 million to R1 481 million.

Senior unsecured stub payment

It is anticipated that a seventh payment of between approximately R350 million and R400 million will be made to holders of the senior stub instrument. This payment is expected to be made during January 2021.

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 honoured to the extent that RDS does not have sufficient funds to cover any claim arising.

As at 30 September 2020, 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 restructuring transaction.

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.

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 RDS and 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.

An arbitration hearing took place in September 2020, with the arbitrator granting an award predominantly in favour of CUF. RDS has appealed the arbitration award with the appeal hearing scheduled for early December 2020. The financial impact to RDS cannot be reliably determined at this stage and is also dependent on the outcome of the appeal arbitration process. To the extent that any liability arises, 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

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Conference call

A conference call is being held today at 11am SAST. Interested parties are requested to pre-register for this conference call at <https://www.diamondpass.net/4548112> 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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