

Final press release for Residual Debt Services Limited

**2 December 2021**

**Residual Debt Services Limited (“RDS”) releases audited annual financial results for the year ended 30 September 2021**

**Results Highlights:**

- Eight payments to holders of senior unsecured stub instruments totaling R4.05 billion have been made to date;
- Anticipated ninth payment of between R250 million and R300 million to holders of the senior stub instrument to be made at the end of January 2022;
- Cash on hand of R3.670 billion (FY2020: R3.787 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;
- Total assets (primarily advances and cash) of R3.854 billion (FY2020: R4.067 billion), and total liabilities of R9.541 billion (FY2020: R9.556 billion); and
- Loss from operations of R198 million compared to a loss of R223 million for the year ended 30 September 2020.

The Curator, Craig Du Plessis noted: *“RDS has had another successful year as we continue to focus on late stage collection. The collection of the book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down”. The Covid-19 pandemic has not affected the collections to date.*

*We are pleased to report an anticipated ninth payment of between R250 million and R300 million to senior unsecured stub instrument holders which will be made at the end of January 2022. This would result in total payments of between R4.3 billion and R4.35 billion to these holders.”*

**Financial results**

RDS reported a loss from operations of R198 million for the year ended 30 September 2021 compared to a loss of R223 million for the year ended 30 September 2020. Operating costs reduced to R254 million from R313 million for the year ended 30 September 2020 as a result of lower collection fees paid to African Bank given the run down nature of the book.

Net advances decreased to R184 million for the year ended 30 September 2021 compared to R277 million for 30 September 2020 due to the book paying down and write offs. Actual collections were slightly ahead of expectation, which also contributed to the net advances decrease. Overall provision coverage is in line with 2020 remaining high at 71%.

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 16<sup>th</sup> 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 30 September 2021 reduced to R3.854 billion, compared to R4.067 billion as at 30 September 2020. Senior unsecured liabilities were reported at R2.809 billion and subordinated liabilities were reported at R6.668 billion which represents the contractual value of the respective stub instruments.

Cash on hand which amounts to R3.670 billion (R3.787 billion as at 30 September 2020) includes the indemnity reserve of R3 billion, an operational cash float of R500 million, and surplus cash held in current accounts and money market funds.

### **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.

The “No claim” scenario, with a senior unsecured stub instrument fair value of R2.833 billion, and a subordinated stub fair value of R1.478 billion, assumes 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 stub instrument.

Under the “full claim” scenario, with a senior unsecured stub instrument fair value of R1.495 billion it is assumed that the indemnity reserve of R3 billion will be called in full and paid out evenly over a two and a half year period. Under this scenario, the holders of subordinated unsecured stub instruments will not receive any payment.

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 where cash flow impact is expected from the 31 October 2021 which was the implementation date, and the National Credit Amendment Bill where cash flows are expected to be impacted after a six months period.

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 ninth payment of between approximately R250 million and R300 million will be made to holders of the senior stub instrument. This payment is expected to be made at the end of January 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 30 September 2021, 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 8<sup>th</sup> anniversary of the restructuring transaction.

RDS is in discussion 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 have been advised to exercise 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 has opposed this application, all pleadings and heads of argument have been filed by both parties. The dispute between RDS and CUF is therefore on-going.

To the extent that a 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

**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/3821978](http://www.diamondpass.net/3821978) and follow the instructions provided. The call is being recorded and will be available via the website ([www.residualdebtsservices.co.za](http://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, 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.