

Final press release for Residual Debt Services Limited

3 June 2021

Residual Debt Services Limited (“RDS”) releases interim financial results for the six months ended 31 March 2021

Results Highlights:

- Seven payments to holders of senior unsecured stub instruments totaling R3.7 billion have been paid to date;
- Anticipated eighth payment of between R300 million and R350 million to holders of the senior stub instrument to be made during July 2021;
- Cash on hand of R3.708 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;
- Total assets (primarily advances and cash) of R3.930 billion (FY2020: R4.067 billion), and total liabilities of R9.516 billion (FY2020: R9.556 billion); and
- Loss from operations of R97 million compared to a loss of R153 million for the six months ended 31 March 2020.

The Curator, Craig Du Plessis noted: *“RDS had another successful six months. Collection of the book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down” with the Covid-19 pandemic not impacting collections to date as yet.*

We are pleased to report an anticipated eighth payment of between R300 million and R350 million to senior unsecured stub instrument holders which will be made during July 2021. This would result in total payments of between R4 billion and R4.05 billion to these holders”.

Financial results

RDS reported a loss from operations of R97 million for the six months ended 31 March 2021 compared to a loss of R153 million for the six months ended 31 March 2020. Operating costs reduced to R133 million from R162 million for the six months ended 31 March 2020 as a result of lower collection fees paid to African Bank given the run down nature of the book.

Net advances decreased to R222 million for the six months ended 31 March 2021 compared to R277 million for 30 September 2020 due to the book paying down and write offs. The reduction in net advances is as a result of steady loan book collections albeit with reduced expectations for future collections as the loan book continues to decrease in size.

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 2021 reduced to R3.930 billion, compared to R4.067 billion as at 30 September 2020. Senior unsecured liabilities were reported at R3.060 billion and subordinated liabilities were reported at R6.387 billion which represents the contractual value of the respective stub instruments.

Cash on hand which amounts to R3.708 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 R3.094 billion, and a subordinated stub fair value of R1.132 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 R1.442 billion 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.

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.

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 although a sensitivity has been applied, which assumes a 10% reduction on future collections.

Assuming a 10% reduction on the future cash flows collected from advances to customers, the fair value of the net advances is anticipated to decrease by R104 million to R937 million from R1.041 billion.

The fair value of the subordinated unsecured stub instrument will decrease by R104 million to R1.028 billion from R1.132 billion 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 R89 million to R1.353 billion from R1.442 billion.

Senior unsecured stub payment

It is anticipated that an eighth payment of between approximately R300 million and R350 million will be made to holders of the senior stub instrument. This payment is expected to be made during July 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 honored to the extent that RDS does not have sufficient funds to cover any claim arising.

As at 31 March 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 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. The matter has advanced to an appeal stage at the courts.

GEMS contingent liability

RDS has a remaining liability of R20 million as a result of a court order made in 2004. The prescription period is 30 years

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.

An arbitration hearing took place in September 2020, with the arbitrator granting an award in favour of CUF.

RDS appealed the arbitration award and in December 2020 the appeal was awarded in favor of RDS and ruled that the entirety of the mortgage loan and asset-based lending business (referred to as the ring-fenced business) was sold to CUF in October 2004.

RDS also sought an order directing that CUF take transfer of all properties and securities that formed part of the ring-fenced business that are still registered in the name of RDS. RDS is, together with its' legal advisors, in discussions on the way forward and ways to implement the order. The dispute between RDS and CUF is therefore ongoing.

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

ENDS

Louise Brugman 083 504 1186; louise@vestor.co.za

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/8076579 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.

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.