

Conference call transcript

22 November 2017

RESIDUAL DEBT SERVICES FY2017

Operator

Good afternoon ladies and gentlemen and welcome to the RDS results for the year ended 30 September 2017. All participants will be in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please note that this call is being recorded. I would now like to hand the conference over to the Tom Winterboer. Please go ahead, sir.

Tom Winterboer

Right. Thank you very much and welcome to everyone on the call. It is a pleasure to speak to you again after the announcement of our interim results earlier on. So today we will deal with the audited financial results for the year ended 30th September 2017 and it would prove the results in a brief operational update. You may have received the slide that's available on the web and I'm in essence going to talk through the slide, so if you want to follow that I'll use that as a guideline. So if we go to slide two, the contents we're dealing with, you know obviously we're saying it is the financial results for Residual Debt Services, or RDS then, which was placed in curatorship on 10th August 2014 when it was still the old African Bank and it is still in curatorship as at this reporting date being 22nd November. And it will remain under curatorship for the foreseeable future.

As you know the old African Bank Ltd was successfully restructured on 4th April 2016 by means of a transfer of certain assets and restructured liabilities into a new entity which was then subsequently named African Bank Ltd and at that same date Residual Debt Services, the old African Bank renamed Residual Debt Services. So the Residual Debt Services' balance sheet therefore consists of the remaining assets together with the remaining liabilities and the remaining liabilities in the main which have become known as the stub instruments. So these results reflect the full year set for the 2017 financial year. The presentation and results can be accessed at www.residualdebtservices.co.za. What we'll do is, just to give you a bit of a group overview, secondly financial statement analyses, thirdly and operational update and then I'll have some concluding remarks and after that as we said we will be available for some questions.

If we turn to slide 3 and I think the important thing here is just to remind us again as to what the group look like and clearly there is some different names. So we've got African Phoenix as the 100% shareholder of Residual Debt Services Ltd. African Phoenix obviously previously known as ABL or African Bank Investments Ltd, so subsequently renamed. African Phoenix still has a 100% shareholding in Stangen, the insurer previously part of African Bank and then the 100% in Ellerines Holdings Ltd and Ellerines Holdings Ltd is obviously in August of 2014 also been put into business rescue. The lifting of the suspension in trading in African Phoenix investment shares on 1 February 2017 is not related to the reporting by Residual Debt Services. So Residual Debt Services as we said earlier on remains in curatorship and under the control of the curator.

If we page to slide 4, looking at the financial statement analyses, the summary of the financial position, I think starting off the cash position at 30 September this year, R3.675 billion compared to the R697 million the previous year. And you know I'll talk a bit more about that later on but just to be aware that at the moment the cash collections we run at about a negative, approximately R120 million per month you know after paying the

various costs, but that is declining and I'll talk some more about that. You know the net advances' position is on a separate slide and I'll deal with that just now. If we look at the other assets, you know that has gone down to R29 million, so those are just very small amounts but it would have reduced as you see from 2016 and that is a result of, you know we obviously sold the book to the new African Bank in 2016 and there was a final amount owing, roughly around about R600 million. So that is the main difference that we saw there.

So the on-balance sheet value of the assets is R4.738 billion as you see there, but the main thing there is the value of almost off-balance sheet to fair value adjustments and it is important just to point to that. So the fair value of the net advances, so that's the R1.034. If that is done on a fair value basis we add another R269 million and the value of the written off book and the gross value of that is R50.2 billion but if we value that on a fair value basis it is worth about R1.4 billion. So the fair value of the assets on the balance sheet is then R6.407 billion and I think it is just important to keep that in mind and that obviously comes into play once we start looking at the total fair value and what creditors can expect to get out.

If we look at the liability side, other liabilities would include amounts such as the service level agreement fee. You know that obviously gets paid in arrears, so that would be included there in the main. The other two amounts there would be the senior unsecured creditors of R5.380 billion and the subordinated unsecured stub of R4.34 billion. And those obviously grow with interest and we will talk about just the interest amounts on a later slide.

If we then turn to slide five, just looking at the condensed income statement for the six months and what we have done this year is, we have used the second of 2016 as the first half would actually include the full results of the old African Bank plus whatever has been transferred. So for comparative purposes we are looking at just the second six months there and then we are sort of comparing that to first half 2017 and the second half of 2017. In the main the interest income on advances, looking across from the right-hand side you would see that the second half of 2016, R206 million, that goes to R136 in the first half and further down to R68 million and the second half of 2017. Similarly the non-interest income has gone down and it really comes down to the decrease in book size and it is really in a declining trend. And at this stage this sort of high level numbers, the net number for net advances, you know we have seen on the previous slide it was a billion at the end of September. We expect it to go to about, just over R500 million in September 2018 and then to about R200 in 2019, just to give you a sense as to where that may go.

The big number on the income side there is the Credit Repairmen reversal and that is just as we increase our recoveries. It clearly will get to a point where that also then starts declining. If we look at the other interest income you would have seen that that has gone up quite a lot and that on the main is as a result of the built up of our R3 billion indemnity reserve fund and we will talk about that a bit some more just now, but in the main that is the built up really from scratch starting in the start of the previous financial year. Right, if we look at the interest expense and the similar charges, in the main that would be the cost of the interest of the stubs and that clearly would continue to accrue but that is the main cost there.

When we get to the operating cost line you would have seen that the second half of 2016 about R400 million and then the two halves of 2017 also very similar amounts. That will start slightly declining but in the main it is the service level agreement fee plus then further operational cost. The operational cost at the moment running at about between R1.5, R1.7 million per month, so I think the rest of the operational cost is fairly low. And that in the main is as a result of the service level agreement which includes a lot of the costs which we then deal with via the service level agreement. You would see the [unclear] tax. That is the non-claimable portion of the VAT. When we look at the capital items, you know we have seen the R2.97 billion in 2016 but that in the main was the profit on the actual transaction that occurred on 4th April which obviously is nonrecurring. And really looking

at the total loss for the year clearly with the book and rundown we can unfortunately not expect anything else and that is as we have stated over there.

If we turn to page six we're looking at the claims waterfall which we have discussed with you at previous reporting periods in an order of decreasing seniority. Obviously we have the SARB loan, the R3.3 billion which was fully repaid by September 2016. We then move to the other liabilities which we talked about before and that would rank ahead of the indemnity in terms of the other creditors. We then have the indemnity guarantee, the R3 billion which was then fully funded by 30th September 2017 and we are quite pleased that that is now in place. We then look at the senior unsecured stub of R5.38 billion, the subordinated, the R4.34 and then we look at the shareholders but at present and we will talk some more about that, we do not see any value for the shareholders at present and also not for the subordinated.

If we look at page seven, slide seven, following on from the comments in terms of what are the fair values, what we have done is we have looked at the fair value of what it could be. So there are two cases. There is a base case and there is a case where there is no claim. In the base case we assume that the R3 billion indemnity would be fully claimed whilst, as I say in the no-claim that is not. So the senior stub instruments we believe on the base case, R2.82 billion and where there is no claim for R5.3 billion. Then looking at how we arrived there, just firstly the stub subordinates then come up as a value of nil in both cases, but the fair value is then assessed. It is the discounted cash flow of the forecast future receipts and payments for 60 months from the advances' book, further cash flows from the book for 60 months. All the cash flow has been discounted at weighted average cost of capital of 14%, except for the R3.5 billion cash flow. So that would be the R3 billion indemnity reserve plus the R500 million float in the no claim scenario and those amounts have been discounted at the seven year risk rewrote of about 7.5%.

The base forecast with the fair value of R2.82 million of senior stubs assumes that the indemnity will be called then for and we assume that it would be spread evenly over a six year period and six tranches starting from March 2018. The no claim forecast with the value of the R5.3 billion assumes that the indemnity will not be called at all. I just want to state that at present we have had no claims on that indemnity reserve and it remains open until April 2024. So one has to really do modelling around that and that is what we have done here.

One of the changes from the yearend 2016 and we have done that for the six months' results and we have done it again now, is we built in an amount of R200 million for closure costs which we have provided for. Now unfortunately it is very difficult to estimate that amount but it is important to be aware that it is there and that is a change from what we have done in the past and clearly in terms of valuing what is there, please take notice of that. Further detail regarding the assumptions has been given in the notes to the annual financial statements and then any surplus arising after covering the indemnity would be released to creditors every six months thereafter based on their ranking as per the previous slide, the waterfall. And so one would at the end of, we said at the end of December 2017 and that would be paid in January 2018. Next again looking at the amount, clearly you know once we have done some procedures on the March results and June then for payment in July and so on.

If we turn to slide eight and we are just looking at the market price on the left-hand side for RDS senior stubs together with the claims on the indemnity reserve and what the fair values would be. So if we look on the right-hand side the fair value compared to the original principle value, you know on the base case it would be 71% and if there is no claim 134% and then if we look at the fair value compared to the book value on the seniors it is 52% on the base case and 99% if there is no claim. You would note in both these instances the subordinated stubs value is nil. On the left-hand side is just a market price of the RDS senior stubs. We have received that from RMB global markets and that is more just indicative to show as to where the price was. The last price as

quoted we received yesterday. It was the seniors trading double there was 82, 83 cents in the Rand and the subs between 2 and 5 cents in the Rand, the double there, so just to give you some sense as to what those prices are.

If we then turn to slide nine where we deal with the advances overview, I have talked a little bit about that. The important thing here is to note that the reduction in the gross advance is as a result of the book paying down, so it is in rundown and we have said we are clearly not writing any new business and consequently one would see these amounts going down. The actual collections are slightly ahead of expectations and that is obviously contributed to the book decrease and I will talk a bit about further collections on a slide bit later on. The overall provision coverage is 73% and that has increased from the 59% at the yearend 2016 and clearly a result of the pay down nature by the lower risk customers.

If we page to slide ten, I think to important matters there with the SARB. Firstly the SARB loan, so the Residual Debt Services received the SARB loan of R3.3 billion enabling the asset transfer to give effect to the transaction in April last year. The loan and interest in principle rank senior to any stub instruments and this loan including interest in capital was fully settled by 30 September 2016. I think the big milestone for us this year is the SARB indemnity guarantee. RDS has provided the R3 billion indemnity to the new African Bank in respect of the assets transferred to the new African Bank. It expires on the 8th anniversary of the transaction which was 4 April 2024. As we said at 30 September this indemnity guarantee reserve was fully funded to the amount of R3 billion and that is an additional to a further operating float of R500 million to make sure we can take care of the operational costs.

If we then turn to slide 11, we have in the past reported on the National Credit Regulators, NCR's investigation into the reckless lending allegations levelled against Residual Debt Services. So we are still fully cooperating with the NCR's ongoing investigation. No liability has arisen to date or has been provided for at the date of the reporting. If any liability would arise obviously that would rank alongside senior stub claims, but as I say at the moment there is none. In terms of SARS and taxation RDS has opened tax matters with SARS and it primarily relates to the deductibility of the repairmen provisions in prior year and that incidentally would also, you would remember the fact that we restated some numbers at the start of the curatorship. So that obviously has a role in there, but due to the current uncertainty in this matter no deferred tax asset or a liability has been raised. So we will clearly try and resolve this matter with SARS in the time to come.

If we look at slide 12, it deals with the monthly collections, the projected versus the actual. The electronic actual, you would have see that in the green bar on the graph and the red is the projected. In fact the other way around, the red is the actual, the green is the projected. But you will see that the actual and projected tracking very, very close at the moment, so that is good news. The better news though is, if we look at the projected specialised collections, that is on the dark blue, compared to the actual specialised and that is in the yellow line and you can see that that gap is there. So obviously we are ahead on the specialised collections or what we sometimes refer to as the hard collections. So I think that is good news, but clearly it is a book that is running down. We are in an economy that is not growing and so on but it is I think good news for creditors.

So turning to slide 13, just for some concluding remarks, so we, I believe had a very successful 12 month period. We have had an increasing focus on late stage collections as the electronic collections decrease. The continuing collections of RDS are running smoothly albeit with reduced expectations for future collections as the book is in rundown. The indemnity fund of R3 billion is now fully funded and then I suppose a bit of good news is that there is an anticipated payment of approximately R500 million during January 2018 to senior stub holders, obviously barring any unforeseen circumstances. And I think it is just important to note that, but if everything runs according to plan we expect to make these payments in January to the senior stubs.

The next six monthly report, so that would be 1st October to 31st September 2018 and the interim financial statements for the six months 31 March expected to be published in May 2018. And we will obviously communicate it at that stage. Just for the record I have had some requests from various market participants and others to meet and communicate in between, but to avoid any unfair advantage to any party we have not had any other meetings with the curator or its team and once again it will be the same then for the period coming over the next six months. And we would then look at communicating with you again at that stage. So in the main that is where we are and I will now open it for questions if there are any.

Operator

Thank you very much, sir. If there is anyone who would like a question please press star and then one. If you wish to withdraw the question please press star and then two to remove yourself from the queue. If anyone would like to ask a question please press star and then one. Our first question is from Timage Lesotho [?] of Momentum Investments.

Tom Winterboer

Please go ahead.

Timage Lesotho [?]

I just want to check; the nature of the R500 million payment is as the stubs had been bought at or is that representative of interest?

Tom Winterboer

That would be the service; you know where we're servicing interest.

Timage Lesotho

Okay, perfect.

Tom Winterboer

And clearly depending on the collections going forward you know would one firstly service interest and after that capital if the funds are available.

Timage Lesotho

Okay, perfect.

Tom Winterboer

Do we have a question?

Operator

The next question is from Sibusiso Hlatshwayo of Anibok Investment.

Sibusiso Hlatshwayo

Hi, thanks for the presentation. I just have a couple of questions on, it is like four. Why has the gross value of your written-off book decreased from some 21 to about 15? Are you sort of like set a writing of that off-balance sheet book or what is the reason for the decline?

Tom Winterboer

Yes, what we have done is, we have had about four book sales. Unfortunately one gets very little for those book sales and you have got to sell it before the prescription period of three years. So that in the main is one of the reasons and then anything else that gets prescribed we need to fully lose out of that.

Sibusiso Hlatshwayo

Right and how do you sort of come up with the fair value of R1.4 billion of that? What are the methodologies? I'm trying to sort of get some facts to think about how we should look at that. How do you come with R1.4 billion out of the 15 that you recognise as gross?

Tom Winterboer

Ja, what we would do is to obviously look at the expected cash flows and you can only base that on history. So the model would be billed on that basis. We have also had two further outside parties looked at that for us just to make sure we're in the right ballpark and obviously take those further cash flows and discount it back to today's value at an appropriate discount rate.

Sibusiso Hlatshwayo

Right.

Tom Winterboer

And clearly we are receiving money and if I can just add to that, you know you find if you sell something that is, I suppose a year from prescription you would obviously get less if you sold something or the value would be less for something that's another two and a half years from prescription and that obviously, you know your cash flows get billed on that. Your next question. Yes.

Sibusiso Hlatshwayo

I wanted to ask another question on your specialised collection. Are your specialised collections on the written-off book or the gross advances sitting on the balance sheet?

Tom Winterboer

The specialised collections would be on both, so clearly, normally your on-balance sheet amounts, so that gross amount that we have got on slide four there of the R3.765 billion, you know clearly some of those, there would be some specialised collections on that but in the main it would be on the written-off book of the R15.2 billion which is obviously quite hard but you know you would get debit orders on that, obviously outside collection consultants and the like.

Sibusiso Hlatshwayo

And my last question just going back to the written-off book, when you are doing a sale of the written-off book you should need sort of, say you get a similar ratio, the R1.4 billion to 16 or are those the amounts that you [unclear] different from that ratio?

Tom Winterboer

Ja I think what I tried to say in my previous comment is that we, you know if something is say two and a half years from prescription obviously you get a lot more than when it is at a six months or a year from prescription. So what we would do is we would identify the books where we would sell them. The reason why we would sell them as opposed to, you know for Residual Debt Services via the SLA to collect on them is that you would find that a lot of the debtors would change their contact details and sometimes people have up to six cell phone numbers and often change them to avoid being traced and so on. So you would find that when you sell it the buyer of that book may well have different or better information, so they would wash it against their own

information. So that is why you would sell it but unfortunately you do not get much for those books but at least you do get something for the benefit of the creditors.

Sibusiso Hlatshwayo

Right, thanks. I have just got two more last questions. I think the first one is just on the discount rates on how you sort of come with the 14% and the last one is, if maybe you can give us some comments again on the NCR investigation and SARS in terms of timeframe or maybe any indication of how much could be the liability on the NCR investigation.

Tom Winterboer

Ja, okay. Maybe I can start with the NCR investigation first. You know it is very difficult to estimate what it could be if anything. You know you would have known that, well, in the years before curatorship there was a case against African Bank and I think there was a settlement of about R20 million at the time. So you know that is, I mean that could be the amount of what is there, so I think that is the angle. But it is hugely difficult to find out what it is. On the other side there may well be no fine. You know what we have said of this even if something looks like it could be reckless lending although it may not be proven we would still write that off, but in most of these cases the amounts would relate to amounts already been written off before. So we would not expect a big amount for that but at the moment it is just very difficult to estimate, so there is that. As far as the SARB is concerned, I just want to make sure what your question as far as that – oh, the SARS, okay, the tax one?

Sibusiso Hlatshwayo

Ja.

Tom Winterboer

Sorry, the tax one. You know we have had an assessment for some of those years and in the net they have levied fines against us of about R40 million and on the other side we got a tax credit of R28 million which you would have seen in the financials. So there is a net amount of R12 million which we have accrued for in, you know that has gone through the income statement. So we at the moment believe that that is probably the worst that it will get and from there onwards hopefully there is upside. We are consulting on this matter. We are lodging an objection but some of these matters can take up to two years to finalise unfortunately. It depends on, you know if you are able to negotiate with them, whether they insist on going to the tax boards, so we have certainly seen and we have been advised by the tax and legal advisers that it could take up to two years unfortunately.

Sibusiso Hlatshwayo

Thanks. Let me just follow up on the NCR investigation response. Let us say, NCR sort of come up with sort of a negative judgment, would that trigger the indemnity?

Tom Winterboer

No, at the moment they are looking at Residual Debt Services. That is where their concerns are, so I am not aware that there is any effect on, call it the good thing. So that would not affect, in a case like that it would not affect the indemnity and that amount, if there was a claim it would be directly needed to be funded by Residual Debt Services. So ja and once again just take note of the fact that we do have the R5 million operational float in place.

Sibusiso Hlatshwayo

Thank you very much.

Tom Winterboer

Right, any other questions?

Operator

Our next question is from Baffour Abedi of River Birch Capital.

Tom Winterboer

Please go ahead?

Baffour Abedi

Ja, thanks for the presentation. Most of my questions have been answered. I just have one and I apologise for making you repeat it as I missed this bit. On slide 5, when you were given an overview of the operating cost, could you please just run me through those again?

Tom Winterboer

Okay, ja. So in the main the operating cost is in terms of our service level agreement with African Bank. Those costs account for, if you look at the R788 million it probably accounts for R768 million. It would be service level agreement cost but those are base and fact mainly on the actual collections from advances and it is structured in two tiers. We are looking at soft collection, so those would be the electronic collections and then the other one would be the specialised collections where there is a higher percentage and those would be the cost in the main. If you look also on the annual financial statements on page 28 there is a further breakdown of that, but the other expenses in the main would really just be for some professional fees, so for myself and then the team members but we also have a collection specialist and the like. So that is a fairly small amount of it but the SLA would be the major amount of those costs.

Baffour Abedi

And the reason why the second half increases versus first half I assume is just the higher percentage of specialised collections that you progressed through the book?

Tom Winterboer

That is right. You know as your soft collections or your electronic collections decrease, you know it is easier to collect our percentage that we pay away, then in terms of the SLA it is lower compared to the specialised where the costs are higher and those things have been struck on a market related basis at the time. The benefit that we have, just to add to that is that we have a team of accountants and risk managers and the like. That has all been supplied under that SLA.

Baffour Abedi

Okay, thank you.

Tom Winterboer

Good, any other questions?

Operator

The next question is from Robert Fulk [?] of IFC.

Tom Winterboer

Robert, please go ahead.

Robert Fulk

Hi, ja, we had one question with regards to the additional cash out where you mentioned of R200 billion that would be for future foreclosure and associated costs that you added to the projection. Could you provide some more information on what that is exactly and what changed between your last estimate and why this was added the time around?

Tom Winterboer

Ja, you know I think firstly anybody who wants to do a valuation can obviously say what would they believe the cost is, but it is usually difficult to say what it could be in six and a half years' time. So what we try to say is, for instance you had a fine from regulators and you look at some of those cases that happened. I think some examples would have been JP Morgan in the US. You would look at cases such Barclays who have had some fines and a whole lot of other banks. So you say well, if there was a fine how much would it be? We talked about R20 million earlier on but there is literally nothing out there that will give you an exact amount. One would probably need to do some control just to make sure whatever is in place has been dealt with appropriately. So that amount could be much, much lower.

You know we just said, look, let us put it in there so that people, there is something there that says, look, there could be costs but it is very difficult to arrive at a number and we just wanted to put it up there. And there could be legal actions, we do not know of anything at this stage, but if you start adding them all up they could come to some amount together with the SLA and so on. So we just wanted to make sure that there is something there. You know if you said to me, could it be as much as R200 at the moment, you know I cannot see that it will add up to that amount but it has been put there and that is why we are flagging the amount as well. Ja, so at the moment there is not anything specific that we are aware of but we just wanted to make sure that people, that there is some prudence built into it and that is why we are disclosing it.

Robert Fulk

Okay, that is helpful. So just hypothetically if that ended up being a zero balance one could assume that there would be actually a recovery on the subordinate stub instruments?

Tom Winterboer

There could be a recovery you know bar anything else.

Robert Fulk

Ja.

Tom Winterboer

But there would certainly some costs. You know there would be, I suppose professional fees. You may well need to go to court to bring it all to an end and so on, so there will definitely be some but just what it is, is just difficult to estimate.

Robert Fulk

Okay, thank you very much.

Tom Winterboer

Any other questions?

Operator

Our next question is from Jacques [unclear] of Peregrine.

Tom Winterboer

Jacques, go ahead.

Jacques

Hi Tom. Thanks for the presentation. I just got a further follow up question on the operating costs in the business. I mean business SLA costs scale down automatically as collections reduce over the next few years and then do you have an ability to renegotiate or shop around if you feel you are not getting value for your money as the book shrinks and you will try and get a better deal for the business?

Tom Winterboer

Okay, so maybe I can... So firstly as the book goes down it is a percentage base of actual collections. So if there are no collections there is no fee, so I think that is the first thing. You know clearly the book is running down, so we would expect that to go down but clearly you would be, as long as there are collections you would be in a net cash flow positive position because you will not pay out, apart from the smaller amount, as I say for roughly one and a half million for various other costs where we've got an outside consultant on the collections. And these actually help quite a lot in terms of behaviours and approving the collections.

The next part of it is, so could we renegotiate? The current SLA comes to an end I think at the end of September next year. Should we decide not to renegotiate the current arrangements will stay in place. However we have recently talked about, there is a third bit to it, so there is a hosting fee of about R8.50 per ID number which comes in as part of the SLA fee we have discussed in the reduction of that. But that is not a huge amount every month but just a small cost, so we are already talking about reducing that. So yes, in terms of renegotiating there is an opportunity coming up and we will obviously need to listen to that but the important thing is to benchmark that out in the rest of the industry and so on. But definitely an opportunity should the need arise, but at this stage we are very happy with the support we were receiving.

Robert Fulk

Okay, great thanks.

Tom Winterboer

Another question?

Operator

Just a reminder, if anyone would like to ask a question please press star and then one. We have a follow up from Sibusiso.

Sibusiso Hlatshwayo

I just wanted to come back to the question of the discount rates of 14%. Is that the same discount rate used for valuing the written-off book or is the discount rate for the written-off book higher?

Tom Winterboer

I have got one of actuaries here. He is just going to give you the rate that is being used.

Sibusiso Hlatshwayo

Okay.

Actuary

Hi, there. Essentially it is a rate that was set back when we tried to value the book at the point where African Bank actually acquired a portion from RDS. So it is the similar methodology that we follow which is essentially weighted average between your expected return on equity and cost of capital had it been a normally operating business.

Sibusiso Hlatshwayo

So what kind of number does that end up being? Is it like 20%, higher or lower? I am trying to get a sense of whether the 14% ends up applying to the written-off book in particular.

Actuary

So the same discount rate is applied to all accounts, so all cash flows are discounted at the same rate.

Tom Winterboer

The big thing, if I can just come in here, is obviously you know the older the book is and the less cash you receive, it is the cash flow number as opposed to the actual rate. Clearly you just apply the rate but as time goes on unfortunately your ability to collect this is worse. You know you model what you've received from similar type customers. You look at specifics and then you arrive at a cash flow and then apply your rate to that.

Actuary

If I may just clarify here, I think what you are getting at is a different discount rate. So it should be attributed to different risk of customers.

Sibusiso Hlatshwayo

Right.

Actuary

However the model already takes into account the fact that you are expecting less cash flow from high risk customers.

Sibusiso Hlatshwayo

All right.

Actuary

So your discount rate should essentially be a risk free or agnostic to the risk but you foresee to come out on different types of customers.

Sibusiso Hlatshwayo

Okay, no, it makes it sense. It makes sense. So what you are saying is that the marginal risk is picked up in the modelling of the cash flow, not the rates applied once you have done the modelling.

Actuary

Correct.

Sibusiso Hlatshwayo

Okay, great, thanks a lot.

Tom Winterboer

Right, any other questions?

Operator

We have a question from Beverly Benedetti of Stanlib.

Tom Winterboer

Please go ahead?

Beverly Benedetti

Hi, Tom, [unclear], who could claim under that reserve and why? Was it for specific reasons or... [Overtalking].

Tom Winterboer

What is that, on the indemnity reserve?

Beverly Benedetti

On the indemnity reserve.

Tom Winterboer

Okay, on the indemnity reserve and once again it relates, I used the examples of JP Morgan, Barclays and others in the past. You would find that in the JP Morgan case, I mean they acquired a bank, one of those banks in the 2008 financial crisis and the acquired bank actually incurred some fees and some fines and that is the sort of thing that it would be for. So if there were any fines then that would come through there, but that would only be for amounts on the good bank, the new African Bank, so it would not relate to Residual Debt and that was put in there for the comfort of the new shareholders being the six South African banks, the PIC and the SARB that are the main investors in the new African Bank. So that was there to protect them and if we had something under that you would have seen in past time, there has been, under KYC there have been fines and the like and that would be for things that have been transferred at the time. So all the new business that has been written could obviously not relate to that in, call it the good, the new African Bank then. I hope that helps?

Beverly Benedetti

Yes, thank you, thanks.

Tom Winterboer

Any other questions?

Operator

I can see we have no further questions on the line, so would you like to make any closing comments?

Tom Winterboer

Yes, thank you very much again for joining us today. I obviously look forward to sharing with you in another six months. You can as I said earlier on expect a payment of about R500 million in January bar any unforeseen circumstances, but thanks again for joining us on the call and we look forward to communicating again in due course. Thank you very much.

Operator

Thank you ladies and gentlemen. That concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT