

**Audited Financial Results
for the year ended 30 September 2019**

Residual Debt Services Limited (under curatorship)



**Including:
Results FY 2019
Operational update FY 2019**

22 November 2019

These financial results are for Residual Debt Services Limited (RDS), which was placed into curatorship on 10 August 2014, is still in curatorship at this presentation date (22 November 2019) and will remain in curatorship for the foreseeable future. The old African Bank Limited was successfully restructured on 4 April 2016 by means of a transfer of certain assets and restructured liabilities into a new entity with the same name.

The RDS balance sheet therefore consists of the remaining assets, together with the remaining liabilities, which have become known as ‘the stub instruments’.

This presentation and the audited annual financial statements can be accessed at www.residualdebtservices.co.za.

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1. Financial Statement analysis
2. Operational update
3. Concluding remarks

2. Financial Statement analysis

Summary statement of financial position

R million

Assets	Sep 19	Sep 18	Liabilities/Equity	Sep 19	Sep 18
Cash (1)	3 814	4 070	Other liabilities	49	189
Net advances	398	528	Stub instruments	9 438	9 629
Gross advances (2)	1 420	1 979	Senior unsecured	3 934	4 743
Provisions	(1 022)	(1 451)	Subordinated unsecured	5 504	4 886
Other assets	5	18	Total liabilities	9 487	9 818
Current tax asset	4	4	Equity	(5 266)	(5 198)
Total on balance sheet	4 221	4 620	Total on balance sheet	4 221	4 620
Fair value adjustments	1 256	1 327			
Net advances	256	227	Excess of fair value over net advances values		
Written off book (3)	1 000	1 100	Fair value of written off book		
Fair value of balance sheet	5 477	5 947			

Notes

- 1) Cash comprises the indemnity reserve of R3 billion, operating float of R500 million and surplus cash
- 2) Gross value of the written off book amounts to R9.98 billion (FY2018: R12.2 billion)
- 3) The fair value adjustment of R1.256 billion (FY2018: R1.327 billion) include an estimated fair value of the written off book of R1.0 billion (FY2018: R1.1 billion). Fair value of Net Advances is R1.654 billion (FY2018: R1.855 billion)

2. Financial Statement analysis

Condensed income statement

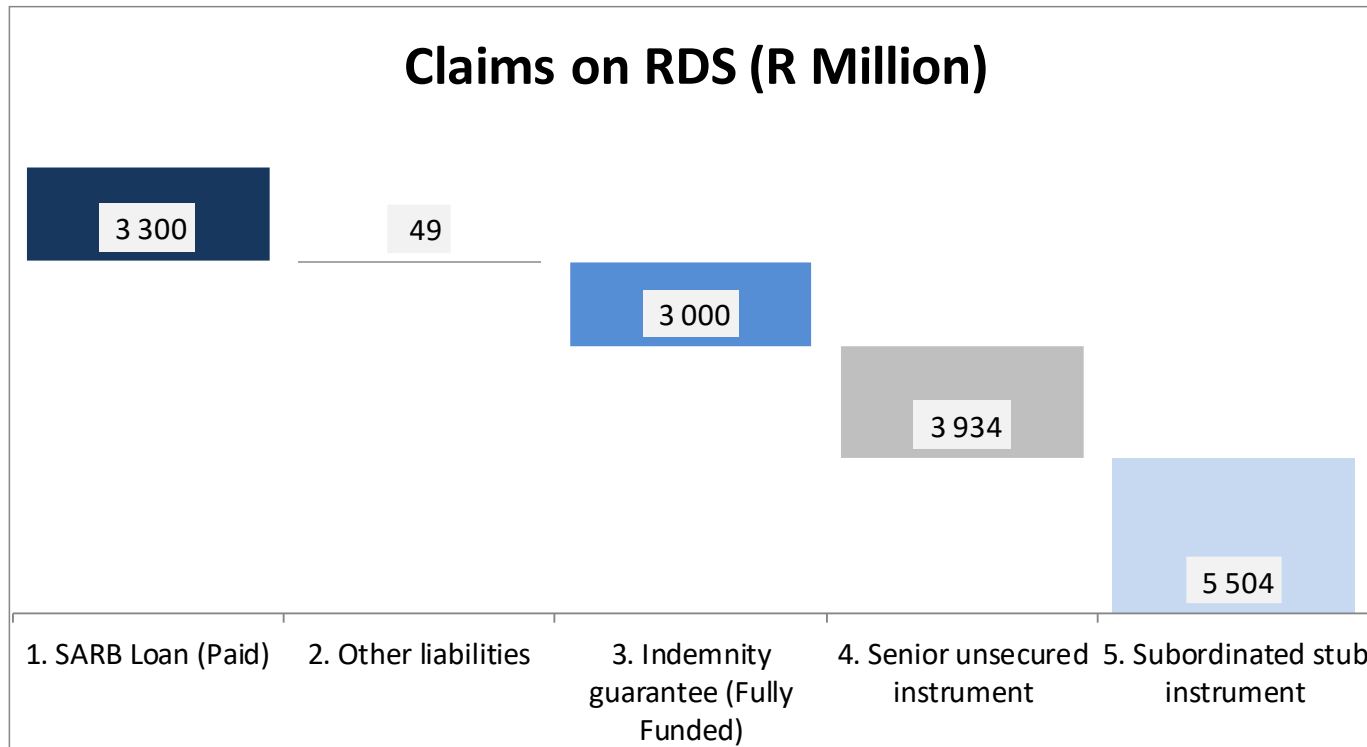
R million	H1 2019	H2 2019	FY 2019	H1 2018	H2 2018	FY 2018	H1 2017	H2 2017	FY 2017
Interest income on advances (1)	16	10	26	38	49	87	136	68	204
Credit impairment reversal (2)	477	630	1 107	604	589	1 193	225	389	614
Risk adjusted income from operations	493	640	1 133	642	638	1 280	361	457	818
Interest income on cash (3)	153	150	303	152	156	308	70	128	198
Other income	13	4	17	6	9	15	33	40	73
Interest expense and similar charges	(533)	(531)	(1 064)	(530)	(529)	(1 059)	(501)	(523)	(1 024)
Operating costs (4)	(221)	(199)	(420)	(311)	(273)	(584)	(390)	(398)	(788)
Indirect taxation: VAT	(21)	(16)	(37)	(35)	(22)	(57)	(23)	(28)	(51)
Loss from operations	(116)	48	(68)	(76)	(21)	(97)	(450)	(324)	(774)
Capital items (5)	-	-	-	49	50	99	-	5	5
Profit/(Loss) before taxation	(116)	48	(68)	(27)	29	2	(450)	(319)	(769)
Direct taxation: current and deferred	-	-	-	-	2	2	-	28	28
Profit/(Loss) for the period	(116)	48	(68)	(27)	31	4	(450)	(291)	(741)

Notes

- 1) Lower interest income on advances as a result of decreasing book size
- 2) Credit impairment reversal from recoveries on written off and provided amounts
- 3) Significant cash balances generating interest income
- 4) Reducing collections and reduced service level agreement costs resulting in lower collections fees paid
- 5) Distributions received from Ellerine Holdings Limited during FY2018

2. Financial Statement analysis

Claims waterfall



In order of decreasing seniority

1. SARB loan - R3.3 billion (fully repaid in Sep 2016)
2. Other liabilities incl. payables and accruals of R49 million at 30 September 2019
3. Indemnity guarantee - R3 billion (Fully funded at 30 September 2019)
4. Senior unsecured stub instrument - R3.934 billion at 30 September 2019
5. Subordinated stub instrument - R5.504 billion at 30 September 2019
6. Shareholders (*African Phoenix Investments Limited*) - no value at present

2. Financial Statement analysis

Fair value of stub instruments

Rm	Claim against indemnity reserve	
	Full claim (R3 billion)	No claim
Senior unsecured stub instrument	2 271	3 896
Subordinated stub instrument	Nil	1 092

- The fair value is assessed as a discounted cash flow of forecast future receipts and payments for 60 months from the advances book
- All cash flows discounted at WACC of 14% NACM, except for R3.5bn cash float and indemnity reserve in “No claim” scenario, which amounts are discounted at the 5 year risk free rate of 6.958 % NACQ
- The “Full claim” scenario (with a senior unsecured stub instrument fair value of R2 271 million) assumes that the indemnity reserve will be called in full (R3 billion) and spread evenly over a three year period
- The “No claim” scenario (with a senior unsecured stub instrument fair value of R3 896 million, and a subordinated stub fair value of R1 092 million) assumes that the indemnity reserve will not be called at all
 - R3.5 billion is assumed to be paid to the holders of senior unsecured stub instrument at the end of 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 ranking as detailed on the previous slide
- An amount of R2.4 billion has been paid to senior unsecured stub instrument holders to date

Further detail regarding assumptions is given in the Notes to the Annual Financial Statements

2. Financial Statement analysis

Fair values and sensitivities overview

Fair value sensitivities: “Full claim” against the indemnity reserve

R million	30 September 2019			30 September 2018		
Stub instrument	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM
Senior unsecured	2 271	2 230	2 314	2 472	2 421	2 525
Subordinated unsecured	Nil	Nil	Nil	Nil	Nil	Nil
Contractual carrying values of stub instruments						
Senior unsecured	3 934			4 743		
Subordinated unsecured	5 504			4 886		

2. Financial Statement analysis

Fair values and sensitivities overview

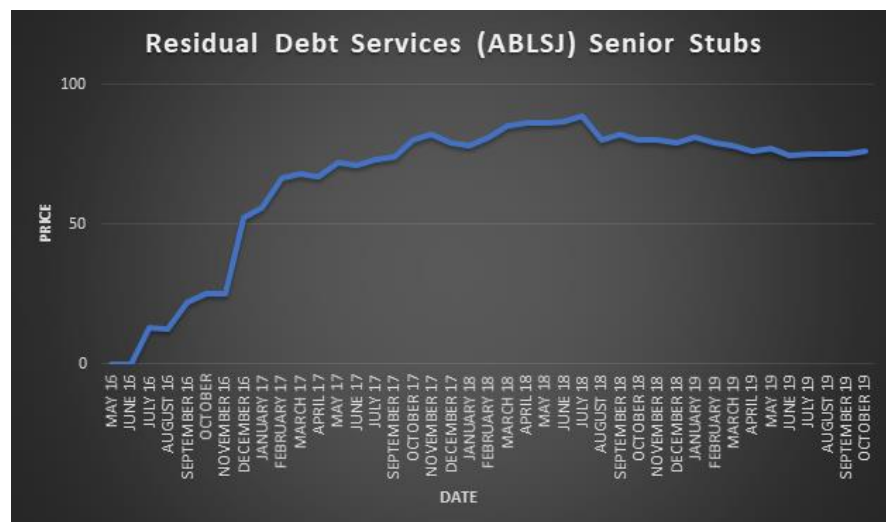
Fair value sensitivities: “No claim” against the indemnity reserve

R million	30 September 2019			30 September 2018		
Stub instrument	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM
Senior unsecured	3 896	3 851	3 943	4 823	4 768	4 880
Subordinated unsecured	1 092	1 088	1 096	98	93	103
Contractual carrying values of stub instruments						
Senior unsecured	3 934			4 743		
Subordinated unsecured	5 504			4 886		

2. Financial Statement analysis

Pricing analysis of stub instruments

Market price of RDS senior unsecured stub*



R million	Claim on indemnity reserve	
	Base (R3 billion)	No claim
Stub instruments fair value		
Senior (30 September 2019)	2 271	3 896
Subordinated (30 September 2019)	Nil	1 092
Fair value/original principal value (%)		
Senior	57,7%	99,0%
Subordinated	0,0%	30,2%
Original principal value of stub instrument		
Senior (10 August 2014)	3 934	3 934
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Senior (30 September 2019)	57,7%	99,0%
Subordinated (30 September 2019)	0,0%	19,8%
Carrying value of stub Instrument		
Senior (30 September 2019)	3 934	3 934
Subordinated (30 September 2019)	5 504	5 504

Increase in fair value of subordinated stub under “No claim” scenario

- Recalibration of collection forecast based on actual collection exceeding forecast, partially offset by overlay for NCA Amendment Bill and DebiCheck
- Lower discount rate (risk free rate) applied to discounting of expected release of indemnity reserve than previous year
- Lower service level agreement cost which was negotiated during the current year
- Additional 12 months of collections is forecasted to be received

* Source RMB Global markets

2. Financial Statement analysis

Residual Debt Services Limited
(under curatorship)

Net Advances overview

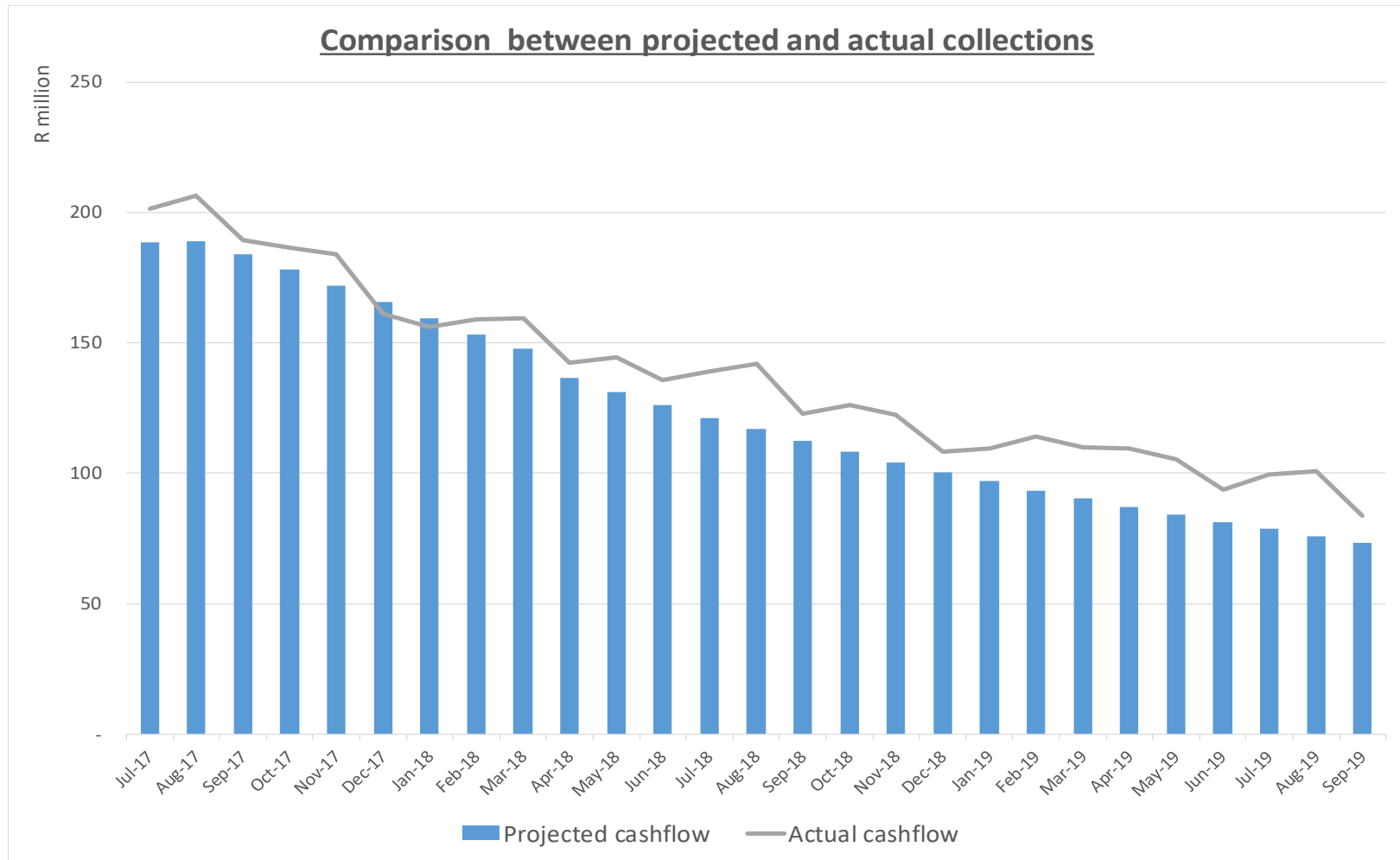
R million

	Sep 19	Sep 18
Gross advances	1 420	1 979
Impairment provision	(1 022)	(1 451)
Net advances	398	528

- Reduction in gross advances as a result of book paying down and write offs
- Actual collections slightly ahead of expectations contributed to book decrease
- Overall provision coverage of 72% (R1 022 million/R1 420 million) in line with FY2018 which was 73%

3. Operational update

Collections



Split Electronic vs Specialise	H1 2018	H2 2018	H1 2019	H2 2019
Specialised	81%	84%	87%	91%
Electronic	19%	16%	13%	9%

Other matters

- **Audit qualification - IFRS9**

- RDS has not applied the requirements of IFRS9 - which primarily affects Net Advances
- RDS believes that the application of IFRS9 would not significantly change the measurement and key disclosures and the fair values as disclosed would not be affected
- The loan book is in run-down and the majority of the population is non-performing and the loan book will in the medium term either be recovered or written off
- The policies and disclosure requirements for financial instruments are consistent with the prior years

- **SARB indemnity guarantee**

- RDS provided a R3 billion indemnity to African Bank
 - In respect of assets transferred to African Bank
 - Expires on 8th anniversary of restructuring transaction (4 April 2024)
- As at 30 September 2019 the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims

2. Financial Statement analysis

Other matters (cont'd)

- **SARS - taxation**
 - RDS has open tax matters with SARS primarily related to deductibility of impairment provisions in prior years
 - Due to current uncertainty in this matter no deferred tax asset or liability has been raised
- **GEMS contingent liability**
 - Resultant from a 2004 court order
 - Remaining contingent liability of R20 million
- **Legal proceedings**
 - There are currently no material ongoing legal proceedings
 - If a liability were to arise from any legal proceedings, such claims would rank *pari passu* with the senior unsecured stub instrument

4. Concluding remarks

- A successful year for RDS, with a continued increasing focus on late stage collections as electronic collections decrease
- Collection of book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down”
- Indemnity fund of R3 billion and operating float of R500 million remains fully funded, with no claims against RDS under the indemnity
- Payment of between R500 million and R550 million to senior unsecured stub instrument holders anticipated in Jan 2020, will bring total payments to between R2.9 billion and R2.95 billion
- Expected that the interim financial statements for the six months year ended 31 March 2020 and further operational and creditors updates will be provided in May 2020
- Applicable documentation published at www.residualdebtservices.co.za

Financial media

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Financial information

Information for the year ended 30 September 2019

Published at www.residualdebtservices.co.za

- Results presentation for the year ended 30 September 2019
- Annual Financial Statements for the year ended 30 September 2019
- Financial media release on the results for the year ended 30 September 2019

Questions?

