Residual Debt Services Limited (under curatorship)

Audited Annual Financial Statements

30 September 2020

These financial statements were prepared under the supervision of G Raubenheimer CA (SA)

Registration number: 1975/002526/06. NCR Registration number NCRCP5.

An Authorised Financial Services and Registered Credit Provider

Contents

STATEMENT OF RESPONSIBILITY BY THE CURATOR

The curator is responsible for the preparation and fair presentation of the annual financial statements, comprising the statement of financial position as at 30 September 2020, the statement of profit or loss, the statement of total comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with the Framework as stipulated in the Accounting Policies of these Financial Statements and in the manner required by the Companies Act 71 of 2008 of South Africa.

The curator's responsibilities include:

- the management of the Company vested in the curator (subject to the supervision of the Registrar of Banks, subsequently the Prudential Authority) from 1 April 2018, and any other person vested with the management of the affairs of the Company as was divested thereof from 10 August 2014; and
- the obligation to recover and take possession of all the assets of the Company.

The curator shall:

- subject to the supervision of the Prudential Authority, conduct the management of the Company in such a manner as the Prudential Authority may deem to best promote the interests of the creditors of the Company and of the banking sector as a whole;
- comply with any direction of the Prudential Authority;
- keep such accounting records and prepare such annual financial statements, interim reports and provisional annual financial statements as the Company or its directors would have been obliged to keep or prepare if the Company had not been placed under curatorship;
- convene the annual general meeting or any other meeting of the Company provided for in the Companies Act, and, in that regard, comply with all the requirements with which the directors of the Company would in terms of the Companies Act have been obliged to comply if the Company had not been placed under curatorship; and
- have the power to bring or defend in the name and on behalf of the Company any action or other legal proceedings of a civil nature and, subject to the provisions of any law relating to criminal proceedings, any criminal proceedings.

Due to the nature of the curatorship, the financial statements are not presented on a going concern basis; rather the financial statements have been presented using the Framework as stipulated in the notes to these Financial Statements. The purpose of the Company during curatorship is to collect the outstanding advances retained by the Company, build the required indemnity cash reserves as required by the SARB, and where excess cash is collected, to make payment to stub note holders.

The auditor is responsible for reporting on whether these annual financial statements are fairly presented in accordance with the applicable framework. These annual financial statements have been audited in terms of Section 29 of the Companies Act 71 of 2008.

Approval of the annual financial statements

The annual financial statements found on pages 12 to 56 were approved by the curator on 02 December 2020

C Du Plessis
Curator

Midrand

A signed copy of the annual financial statements is available for inspection at the registered office.

CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, I certify that, in respect of the year ended 30 September 2020, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Maliga Chetty
Company Secretary

Midrand
02 December 2020

CURATOR'S REPORT

Introduction

Residual Debt Services Limited (under curatorship) ("RDS") is a public company incorporated in the Republic of South Africa. The Company's shares are held by Weonit Projects (Pty) Ltd ("Weonit"); who purchased the shares from African Phoenix Investments Limited (previously African Bank Investments Limited, "ABIL") in the current financial reporting period.

RDS (previously African Bank Limited) was placed under curatorship on 10 August 2014 in terms of section 69 of the Banks Act by the South African Reserve Bank ("SARB"). The SARB's decision followed a period of growing uncertainty surrounding the Company, after a series of financial losses were announced by the Company's then holding company, ABIL. Furthermore, Ellerine Furnishers Proprietary Limited and Ellerine Holdings Limited, were placed under business rescue on 7 August 2014 and 22 August 2014 respectively.

The then curator issued an Offering Information Memorandum ("OIM") to the affected parties detailing the intended restructure of the Company on 4 February 2016. On 4 April 2016 the resolution of the Company ("the Transaction") took place.

Subsequent to the Transaction on 4 April 2016, the Company no longer originates loans. The Company has continued to collect on the remaining loan book.

The then Minister of Finance appointed Tom Winterboer as the curator of the Company. The curator was requested to undertake two key tasks, namely:

- to stabilise the operations of the Company and to seek to preserve its operations during the curatorship; and
- to put forward a proposal for the effective resolution for the Company and its business.

Effective 1 April 2018, Tom Winterboer was replaced by C Du Plessis as curator. The following is the curator's report on the annual financial statements for the year ended 30 September 2020 and covers the following:

A) Curatorship and the restructuring;
B) The Transaction;
C) The way forward; and
D) Statutory disclosures.

A) Curatorship and the restructuring;

Responsibilities of the curator

The curator's responsibilities in terms of the Banks Act are, inter alia, as follows:

On appointment of the curator:

- the management of the Company vested in the curator, subject to the supervision of the Registrar of Banks ("the Registrar") subsequently the Prudential Authority from 1 April 2018, and any other person vested with the management of the affairs of the Company as was divested thereof; and
- the curator became obliged to recover and take possession of all the assets of the Company.

CURATOR'S REPORT

The curator shall:

- subject to the supervision of the Prudential Authority, conduct the management of the Company in such a manner as the Prudential Authority may deem to best promote the interests of the creditors of the Company and of the banking sector as a whole;
- comply with any direction of the Prudential Authority;
- keep such accounting records and prepare such annual financial statements, interim reports and provisional annual financial statements as the Company or its directors would have been obliged to keep or prepare if the Company had not been placed under curatorship;
- convene the annual general meeting and any other meeting of members of the Company provided for in the Companies Act 71 of 2008, as amended ("Companies Act"), and, in that regard, comply with all the requirements with which the directors of the Company would in terms of the Companies Act have been obliged to comply if the Company had not been placed under curatorship; and
- have the power to bring or defend in the name and on behalf of the Company any action or other legal proceedings of a civil nature and, subject to the provisions of any law relating to criminal proceedings, any criminal proceedings.

The Banks Amendment Act, 2015, which came into effect on 29 June 2015 sets out certain amendments to the Banks Act which provide some clarity in relation to the scope of certain aspects of the curatorship.

Reporting to the Registrar, subsequently the Prudential Authority from 1 April 2018

While under curatorship the curator shall furnish the Prudential Authority with a monthly written report containing an exposition of the affairs of the entity concerned. The curator has furnished the Prudential Authority with the required written reports.

Company structure

At the time of the announcement of the curatorship, the SARB also announced proposed measures for the curator to consider and investigate in his endeavours to find a resolution for the Company. The proposed measures in the SARB statement included:

- the formation of a consortium consisting of six banks in South Africa ("the Consortium"), the Public Investment Corporation ("PIC") and the SARB to support and underwrite a restructuring;
- the formation of a newly registered bank holding company ("New HoldCo") to hold the so-called Good Bank (based on the structure as envisaged by the SARB in their announcement on 10 August 2014), and to acquire the various insurance entities within the old ABIL group, including the Standard General Insurance Company Limited ("Stangen");
- the injection by the shareholders of R10 billion of equity into New Holdco;
- the splitting of the Company's loan book into a "Good Book" and a "Residual Book";
- the transfer of certain of the assets (including the Good Book) and selected liabilities of the Company to Good Bank;
- the transfer of the senior funding liabilities and retail deposits from the Company to Good Bank, after haircutting the face value of the senior funding liabilities by 10%; and
- a proposed listing of New HoldCo in due course.

Refer to Section B below for a summary of the actual Transaction.

Liabilities of the Company

Following the placing of the Company under curatorship, and in accordance with the powers of the curator, payments of interest and capital on all debt were suspended with the exception of retail savings deposits and trade creditors arising in the ordinary course of business.

Senior unsecured debt holders (wholesale depositors, bondholders, holders of physical or dematerialised debt instruments, wholesale bank deposits, and any other classes of senior unsecured debt) were not receiving payment of interest or principal for the duration of the curatorship of ABL (until the Transaction date). The rights of such senior unsecured debt holders remained intact.

CURATOR'S REPORT

B) The Transaction

Tom Winterboer as the then curator issued an Offering Information Memorandum ("OIM") to the affected parties detailing the intended restructure of the Company on 4 February 2016. On 4 April 2016 the resolution of the Company ("the Transaction") was implemented. Significant steps that took place were as follows:

- a newly registered bank holding company, African Bank Holdings Limited (registration number 2014/176855/06), and a new bank entity, (the new) African Bank Limited (registration number 2014/176899/06) issued with a banking licence, were formed to hold the so-called Good Book and continue as a bank;
- further a new insurance holding company, African Insurance Group Limited, was created to hold an investment in a cell captive and manage the banking-related insurance operations;
- R10 billion of equity was provided to African Bank Holdings Limited (and then on to African Bank Limited) by the new shareholders;
- certain of the Company's assets (including the Good Book) and selected liabilities were transferred to African Bank Limited ("Good Bank");
- senior funding liabilities of the Company were settled by way of a 10% cash payment, issuance of a new 10% stub instrument by the Company and the remaining 80% through the issuance of a new instrument by African Bank Limited ("Good Bank");
- settlement of the subordinated funding liabilities by way of a cash payment totalling R165 million, the issuance of a new instrument by African Bank Limited ("Good Bank") to the value of R1.485 billion, and the issuance of a new stub instrument by the Company to the value of R3.6 billion; and
- the provision of an indemnity guarantee in favour of African Bank Limited ("Good Bank") in respect of the Good Book transferred to the value of R3 billion.

To support the Company as part of the Transaction, the SARB provided a loan of R3.3 billion. Further to this, the SARB also provided an indemnity guarantee of R3 billion, as noted above, in respect of the guarantee provided by the Company to African Bank Limited ("Good Bank").

C) The way forward

Subsequent performance of the Company

Subsequent to the Transaction on 4 April 2016, the Company no longer originates loans. The Company has continued to collect on the remaining loan book with gross monthly collections varying between R66 million and R92 million between October 2019 and September 2020. Additional information relating to the advances is provided in note 4 and note 23 of these annual financial statements.

Future outlook

The indemnity guarantee noted above is in place for a period of 8 years which commenced on 4 April 2016. As a result, the Company is expected to continue in existence until at least that date. Since the repayment of the SARB loan, the Company continued collecting outstanding advances retained by the Company, and in September 2017 had fully funded the required indemnity cash reserves of R3 billion as required by the SARB. Where excess cash is collected over and above the R3 billion referred to and the operating float of R500 million, such cash will continue to be used to make payments to stub note holders in accordance with the cash flow priority of payments ("the Distribution Waterfall").

During the 2020 financial year, payments of R900 million were made to Senior Stub Holders (2019: R1.25 billion). Payments of R500 million and R400 million were made to Senior Stub instrument Holders on 30 January 2020 and 31 July 2020 respectively.

Post-balance sheet events

There were no matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Company annual financial statements,which significantly affects the financial position at 30 September 2020 or the results of its operations or cash flows for the year then ended. Refer to note 29.

CURATOR'S REPORT

Going concern

These financial statements are not presented on a going concern basis and use the Framework as stipulated in the notes 1.1.1 and 1.2.2 of these annual financial statements. Even though these financial statements are not prepared on a going concern basis, the curator applied his mind in considering the financial impact that COVID-19 would potentially have on the Company and its primary objective of collecting on the advances book and consequently settling the stub instruments. During March 2020, the strictest national lockdown restrictions were introduced by the South African government. The strict restrictions were, however, relaxed by the period end. In observing the collections patterns post the introduction of the national lockdowns; the curator exercised judgement on the estimates and assumptions applied in deriving the impairment provisions and did not change the impairment models and estimates for COVID-19. However, sensitivity analyses are provided in note 26.2 as the impact of COVID-19 remains uncertain going forward.

D) Statutory disclosures

Share capital

Ordinary shares

The authorised share capital consist of 133 750 000 (2019: 133 750 000) shares of R1 each.

No shares were issued during the current or previous financial year. At 30 September 2020, the issued ordinary share capital totalled 121 251 512 (2019: 121 251 512) shares at par value of R1 each representing R121.3 million (2019: R121.3 million).

No shares were repurchased during the current or previous financial year.

Shareholding in the Company

The Company's shares are held by Weonit Projects (Pty) Ltd ("Weonit"). Weonit is a private company, it acquired the shares of RDS from African Phoenix Investments Limited (the new registered name for African Bank Investments Limited ("ABIL")) on 4 December 2019 as the effective date. Weonit is a privately held company with registration number 2015/036881/07 and acquired African Phoenix Investment Limited's investments in RDS, Ellerine Holdings Limited (in business rescue) and the RDS senior stub instruments, refer to note 5. Since 10 August 2014, the management of the Company has vested in the curator subject to the supervision of the Prudential Authority.

Financial results and reporting Framework

Due to the "run-down" nature of the Company, the financial statements are not presented on a going concern basis; rather the financial statements have been presented using the Framework as stipulated in the notes to these annual financial statements.

The financial results for the year ended 30 September 2020 are set out on pages 12 to 56 of these annual financial statements. The Company reported a net loss after tax of R223 million for the 2020 financial year (2019: net loss after tax of R68 million).

The table below demonstrates changes in the financial performance of the Company from the first six months to the second six months of the 2020 financial year as well as the 2019 financial year:

CURATOR'S REPORT

Rmillion	Unaudited Six months ended 31-Mar 2020	Unaudited Six months ended 30-Sep 2020	Audited Year ended 30-Sep 2020	Unaudited Six months ended 31-Mar 2019	Unaudited Six months ended 30-Sep 2019	Audited Year ended 30-Sep 2019
Interest income on advances	1	1	2	16	10	26
Credit impairment reversal	393	377	770	477	630	1,107
Risk adjusted income from operations	394	378	772	493	640	1,133
Other interest income	141	73	214	153	150	303
Other income	4	38	42	13	4	17
Interest expense	(516)	(427)	(943)	(533)	(531)	(1,064)
Operating costs	(162)	(151)	(313)	(221)	(199)	(420)
Indirect taxation: VAT	(14)	19	5	(21)	(16)	(37)
(Loss)/Profit from operations	(153)	(70)	(223)	(116)	48	(68)
Capital items	-	-	-	-	-	-
(Loss)/Profit before taxation	(153)	(70)	(223)	(116)	48	(68)
Direct taxation: current and deferred	-	-	-	-	-	-
(Loss)/Profit for the period	(153)	(70)	(223)	(116)	48	(68)

Dividends to ordinary shareholders

No dividends were declared or paid during the current or previous financial year. No dividends are expected to be paid in future.

Company secretary and registered office

As part of the Transaction on 4 April 2016, an outsourcing agreement with African Bank Limited was entered into, in terms of which Bruce Unser was appointed as company secretary effective from 12 October 2015. Bruce Unser resigned as company secretary effective from 17 January 2019. Maliga Chetty was subsequently appointed as company secretary effective from 17 January 2019. Her business and postal address is the registered office of the Company which is set out in Annexure B of these annual financial statements.

Special resolutions

No special resolutions have been passed in the current year.

C Du Plessis
Curator

Midrand

EY
102 Rivonia Road
Sandton
Private Bag X14
Sandton
2146

Ernst & Young Incorporated
Co. Reg. No. 2005/002308/21
Tel: +27 (0) 11 772 3000
Fax: +27 (0) 11 772 4000
Docex 123 Randburg
ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE CURATOR OF RESIDUAL DEBT SERVICES LIMITED (UNDER CURATORSHIP)

Report on the Financial Statements

Qualified Opinion

We have audited the financial statements of Residual Debt Services Limited (under curatorship) ('the company') set out on pages 12 to 56, which comprise the statement of financial position as at 30 September 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the financial statements of Residual Debt Services Limited (under curatorship) for the year ended 30 September 2020 are prepared, in all material respects, in accordance with the basis of accounting described in note 1.2.2 to the financial statements and the requirements of the Companies Act of South Africa.

Basis for Qualified Opinion

As described in Note 1.2.2 and Note 4 to the financial statements, International Financial Reporting Standards - IFRS 9 Financial Instruments (IFRS 9) became effective for periods beginning on or after 1 January 2018 and was adopted into management's Framework in the 2019 financial year.

IFRS 9 requires a revised approach to classification and measurement of financial assets as well as a forward-looking impairment model for impairment of financial assets. Consequential amendments to IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements require expanded disclosures. IFRS 9 constitutes a significant accounting policy due to the nature and purpose of the entity. The Curator must prepare financial statements in accordance with the Framework in all material respects.

The Curator, however, did not apply the requirements of IFRS 9 in the prior year and instead, the policies and disclosure requirements for financial instruments which were in force prior to the adoption of IFRS 9 continue to be applied relating to Net Advances presented on the Statement of Financial Position. This matter caused us to qualify our audit opinion on the financial statements relating to that year. In the current financial year, this matter remains unresolved.

Note 4 includes disclosures made by the Curator to explain the reasoning and impact of the deviation from IFRS 9. IFRS 9 requires disclosures including reconciliations of Expected Credit Loss ('ECL') allowances per stage, explanations of how the changes in the gross carrying amounts affected the ECL allowances, disclosure surrounding multiple economic scenario analysis and forward-looking information such as the key inputs, probability weights and sensitivities and disaggregation of the gross carrying amounts per stage, per credit risk rating band. These disclosures required by IFRS 9 have not been included within the financial statements. The deviation from IFRS 9 represents a significant deviation from the requirements of the Framework and a deviation from the Statement of Compliance in Note 1.2.1 and for that reasons our opinion was modified in the prior year and remains modified in the current period.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements of the company and in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the company and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Building a better working world

Emphasis of Matter - Basis of Accounting and Not a Going Concern

We draw attention to note 1.1.1 and note 1.2.2 to the financial statements, which indicates that the company is not a going concern and that the financial statements are prepared according to the framework as stipulated in the accounting policies. Furthermore, we draw attention to the fact that as the entity is no longer a going concern this may indicate that the final amounts to be received upon realization of the assets and settlement of the liabilities could vary from the amounts shown in the statement of financial position. Our opinion is not modified in respect of this matter.

Other Information

The Curator is responsible for the other information. The other information comprises the information included in the 57-page document titled "Residual Debt Services Limited (under curatorship) Audited Annual Financial Statements 30 September 2020", which includes the Statement of Responsibility by the Curator, the Certificate by the Company Secretary, the Curator's Report and Annexure B (Acronyms, Abbreviations and Corporate Information). The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Curator for the Financial Statements

The Curator is responsible for the preparation of the financial statements in accordance with the basis of accounting described in note 1.2.2 and the requirements of the Companies Act of South Africa, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the Curator determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Building a better
working world

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Curator.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that is compliant with the framework.

We communicate with the Curator regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Reportable Irregularity

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 5 to the financial statements.

Audit Tenure

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Ernst & Young Inc. has been the auditor of Residual Debt Services Limited (under curatorship) for 4 years.

Ernst & Young Inc.
Deon van der Walt
Director
Registered Auditor

02 December 2020

Johannesburg

STATEMENT OF FINANCIAL POSITION

Rmillion	Notes	2020	2019
Assets			
Cash and cash equivalents	2	243	3,814
Financial investments	3	3,544	-
Net advances	4	277	398
Other assets	6	3	5
Current tax assets	7	-	4
Total assets		**4,067**	**4,221**
Liabilities and equity			
Other liabilities	8	75	49
Stub instruments	9	9,481	9,438
Total liabilities		**9,556**	**9,487**
Ordinary share capital	10	121	121
Ordinary share premium	10	14,283	14,283
Reserves and accumulated losses	11	(19,893)	(19,670)
Total equity (capital and reserves)		**(5,489)**	**(5,266)**
Total liabilities and equity		**4,067**	**4,221**

STATEMENT OF PROFIT OR LOSS

Rmillion	Notes	2020	2019
Interest income on advances	12	2	26
Credit impairment reversal	14	770	1,107
Risk adjusted income from operations		**772**	**1,133**
Other interest income	12	214	303
Other income	13	42	17
Interest expense and similar charges	15	(943)	(1,064)
Operating costs	16	(313)	(420)
Indirect taxation: VAT	17	5	(37)
Loss from operations		**(223)**	**(68)**
Loss before taxation		**(223)**	**(68)**
Direct taxation: current and deferred	21	-	-
Loss for the year		**(223)**	**(68)**

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Rmillion	Notes	2020	2019
Loss for the year		**(223)**	**(68)**
Total comprehensive loss for the year		**(223)**	**(68)**

*The company has no other comprehensive income for the period.

STATEMENT OF CHANGES IN EQUITY

Rmillion	Ordinary share capital	Ordinary share premium	Reserves and accumulated losses	Total Equity
Balance at 1 October 2018	121	14,283	(19,602)	(5,198)
Total comprehensive loss for the year	-	-	(68)	(68)
Balance at 30 September 2019	**121**	**14,283**	**(19,670)**	**(5,266)**
Total comprehensive loss for the year	-	-	(223)	(223)
Balance at 30 September 2020	**121**	**14,283**	**(19,893)**	**(5,489)**
Note	10	10	11	

STATEMENT OF CASH FLOWS

Rmillion	Notes	2020	2019
Cash generated from operations	18	**614**	728
Cash received from collection activities	19	7	21
Recoveries on advances previously written off	14	563	676
Collections from gross advances		329	578
Cash paid to suppliers	20	(285)	(547)
Interest received on cash reserves		214	303
Indirect and direct taxation received / (paid)	21	9	(37)
Net cash inflow from operating activities		**837**	994
Cash flows from investing activities	3	**(3,508)**	-
Placement in financial investment		(3,560)	-
Withdrawal from investment in financial investments		52	-
Cash flows from financing activities		**(900)**	(1,250)
Interest paid to senior unsecured stub instrument holders	9.1	(385)	(497)
Principal paid to senior unsecured stub instrument holders		(515)	(753)
(Decrease) in cash and cash equivalents		(3,571)	(256)
Cash and cash equivalents at the beginning of the year		3,814	4,070
Cash and cash equivalents at the end of the year	2	**243**	3,814

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Significant accounting policies

Residual Debt Services Limited (under curatorship) (“RDS”) is a public company incorporated in the Republic of South Africa. The Company’s shares are held by Weonit Projects (Pty) Ltd ("Weonit"). Weonit acquired the shares of RDS from African Phoenix Investments Limited (the new registered name for African Bank Investments Limited ("ABIL")) on 4 December 2019.

RDS (previously African Bank) was placed under curatorship on 10 August 2014 in terms of section 69 of the Banks Act by the South African Reserve Bank (“SARB”). The SARB’s decision followed a period of growing uncertainty surrounding the Company, after a series of financial losses were announced by the Company’s then holding company ABIL. Furthermore, Ellerine Furnishers Proprietary Limited and Ellerine Holdings Limited, were placed under business rescue on 7 August 2014 and 22 August 2014 respectively.

The then Minister of Finance appointed Tom Winterboer as the curator of the Company. The curator was requested to undertake two key tasks, namely:

- to stabilise the operations of the Company and to seek to preserve its operations during the curatorship; and
- to put forward a proposal for the effective resolution for the Company and its business.

Effective 1 April 2018, Tom Winterboer was replaced by C Du Plessis as curator.

The curator’s responsibilities in terms of the Banks Act are, inter alia, as follows:

On appointment of the curator:

- the management of the Company vested in the curator, subject to the supervision of the Registrar of Banks, subsequently the Prudential Authority from 1 April 2018, and any other person vested with the management of the affairs of the Company as was divested thereof; and
- the curator became obliged to recover and take possession of all the assets of the Company.

The curator shall:

- subject to the supervision of the Prudential Authority, conduct the management of the Company in such a manner as the Prudential Authority may deem to best promote the interest of the creditors of the Company and of the banking sector as a whole;
- comply with any direction of the Prudential Authority;
- keep such accounting records and prepare such annual financial statements, interim reports and provisional annual financial statements as the Company or its directors would have been obliged to keep or prepare if the Company had not been placed under curatorship;
- convene the annual general meeting or any other meeting of the Company provided for in the Companies Act, and, in that regard, comply with all the requirements with which the directors of the Company would in terms of the Companies Act have been obliged to comply if the Company had not been placed under curatorship; and
- have the power to bring or defend in the name and on behalf of the Company any action or other legal proceedings of a civil nature and, subject to the provisions of any law relating to criminal proceedings, any criminal proceedings.

In light of the above, the annual financial statements are prepared in accordance with the Framework as stipulated in the notes to these annual financial statements, and in line with the requirements of the Companies Act.

The purpose of the Company during curatorship, as highlighted in the curator’s report, is to collect the outstanding advances retained by the Company following the restructure, build the required indemnity cash reserves as required by the SARB and where excess cash is collected, to make payments to stub note holders in accordance with the Distribution Waterfall. Consequently, the Company financial statements have been prepared on a “run-down” basis due to implementation of the restructure described in the Curator's report. Due to the run-down business model, the Company as a legal entity is not regarded as a going concern.

The registered office and principal place of business of the Company is disclosed in Annexure B.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Significant accounting policies continued...

1.1 Significant accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant.

Estimates, judgements and assumptions made, predominantly, relate to impairment provisions for loans and advances. Other judgements made relate to the determination of the fair value for disclosure purposes, of financial assets and financial liabilities.

The following are the critical judgements and key estimation uncertainties that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements:

1.1.1 Going concern

The purpose of the Company during curatorship is to collect all outstanding advances retained by the Company following the restructure, repay the R3.3 billion transaction loan received from the SARB with interest, build the required indemnity cash reserves of R3 billion as required by the SARB and where excess cash is collected over and above the R3 billion referred to, and the operating float of R500 million, to make payments to stub note holders in accordance with the Distribution Waterfall.

Accordingly, these financial statements are not presented on a going concern basis; rather the financial statements have been prepared using the Framework as stipulated in the Accounting Policies. As there is no framework which deals with 'run down' accounting, the curator elected to prepare the financial statements using the Framework as stipulated in note 1.2.2 of these annual financial statements.

A key judgement in the application of the Framework is that of the initial recognition of stub instruments to achieve fair presentation, as described in point 1.3. The financial liabilities arising from the issue of the stub instruments were recognized at their face value upon initial recognition.

1.1.2 Impairment of advances

Impairment allowances are calculated using the accounting policy as described in note 23. In determining the impairment allowance, the timing and amount of the expected cash flows are the most significant judgements applied by the Company. Historical loss rates, probability of default and credit quality of the advances are taken into account in determining the expected cash flow on the advances. The determination of these cash flows requires the exercise of considerable judgement by management involving matters such as local economic conditions and outlook, both the current and future. In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The Company also exercises judgement in determining event driven management impairment overlays. The Company makes an assessment of certain events/risks arising from time to time that may not be incorporated into the statistical incurred loss model, based on their likelihood of occurrence in the future. In such instances, the additional inclusions into the impairment model are reviewed and approved by the model risk committee ("MRC").

In the current financial reporting period, a number of events transpired that solidified COVID-19 as a global pandemic that will impact global economic and capital markets. To curb the spread of COVID-19 within South Africa, the government declared a State of National Disaster and instituted a national lock- down starting on 26 March 2020; that restricted economic activity to only essential services as defined in the Disaster Management Act. The restrictions were gradually lifted and as at the end of the reporting period, a level one lockdown was in effect. While the lockdown has been relaxed as at the year end, the full extent of the economic impacts was and is still in the process of unfolding. In assessing the impact of COVID-19 to the impairment provisions of the Company, the curator assessed the collections patterns and projections of the book and considered the impairment provisions of the book to be adequate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Significant accounting policies continued...

Other events, for which an amount was included in the impairment allowance and increased the impairment on advances, include the introduction of DebiCheck and the Credit Amendment Bill. DebiCheck will have an impact on the collection of the cashflows on advances with accounts that: move primary bank accounts, and change debit order dates. Should the account holder fail to electronically confirm the updated debit order, the Company could fail to collect the agreed upon instalment on the agreed upon date. The expected implementation date for DebiCheck is 31 October 2021.

The Credit Amendment Bill will allow a client who earns less than R7 500 per month and has total unsecured debt outstanding of R50 000 to apply for debt relief through the administration channels not yet fully clarified by the bill. This will impact the Company's collection of cashflows from clients who meet these criteria.

The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in light of differences between loss estimates and actual loss experience, refer to note 4.

1.1.3 Current and deferred taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation in which the Company operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Please refer to Note 7 where the above judgement has been expanded and applied.

1.1.4 Fair value estimation

The fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company classifies fair values measured and / or disclosed according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined as follows:

- Level 1: Quoted market prices
  Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Valuation technique using observable inputs
  Inputs that are observable for assets or liabilities, either directly (prices) or indirectly (derived from prices)
- Level 3: Valuation technique using significant unobservable inputs
  Inputs into the valuation model for assets or liabilities, which are based on unobservable market data and are entity specific.

Level 3 requires significant management judgement regarding the inputs and subsequent determination of the item's fair value. Refer to note 26 for details of the significant judgements applied by the Company in determining the fair values for disclosure purposes of advances and stub instruments.

1.1.5 Provisions

By their nature, various assumptions are applied in arriving at the carrying value of provisions that the Company recognises.

Management further relies on input from the Company's legal counsel (internal and external) in assessing the probability of matters of a significant nature.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Significant accounting policies continued...

1.2 Significant accounting policies

The significant accounting policies set out below have been applied in the preparation and presentation of the Residual Debt Services Limited (under curatorship) annual financial statements in dealing with items that are considered material by the Company during this reporting period. The significant accounting policies applied are consistent with the requirements that are borne from the Framework to achieve fair preparation and presentation of the annual financial statements.

1.2.1 Statement of compliance

The annual financial statements are prepared in accordance with the Framework as stipulated in the accounting policies and the requirements of the Companies Act of South Africa.

1.2.2 Basis of preparation- "Framework"

The Company financial statements have been prepared on a "run-down" basis due to the implementation of the restructure described in the Curator's report. Due to the "run-down" business model, the Company as a legal entity is no longer regarded as a going concern as discussed in note 1.1.1 Refer to note 25 for an explanation of the impact curatorship has had on the contractual and expected maturities of the Company's financial liabilities. Refer to note 1.11 and consequently Annexure A for the impact assessment of new IFRS standards and interpretations. The Framework includes the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with customers.

Functional and presentation currency

The annual financial statements are presented in the currency of the primary economic environment in which the entity operates.

The annual financial statements are presented in South African Rand, which is the Company's functional currency. All monetary information and figures have been rounded to the nearest million rand (Rmillion), unless otherwise stated.

1.3 Financial instruments

The Company recognises financial assets and financial liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

The Company has financial assets classified into the following categories:
- loans and receivables; and
- financial assets at fair value profit or loss.

The Company has financial liabilities classified into the following categories:
- financial liabilities at amortised cost.

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

1.3.1 Initial measurement

All financial instruments are measured initially at fair value plus transaction costs, except for stub instruments. Financial liabilities arising from the issue of stub instruments are recognised at their face value upon initial recognition. Please refer to the going concern note 1.1.1.

Significant accounting policies continued...

1.3.2 Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at amortised cost or fair value through profit and loss.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's advances are included in the loans and receivable category.

  These advances arose when the Company provided money, goods or services directly to a debtor with no intention to trade the receivable.

  Loans and advances originated by the Company are in the form of personal unsecured loans and are either paid back in fixed equal instalments or, in the case of credit cards, are revolving credit facilities.

  Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

- Financial assets at fair value profit or loss

  A financial asset is classified at fair value through profit or loss when it does not meet the requirements to be classified as Loans and receivables or available for sale. This category includes instruments that are classified as held for trading. Currently only core income funds (included in the financial investments line) are classified as financial assets measured at fair value through profit and loss.

- Financial liabilities

  All financial liabilities are measured at amortised cost using the effective interest rate method.

1.3.3 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset or liability or, where appropriate, a shorter period; to the net carrying amount of the financial asset or financial liability. For the stub instrument, however, the discounting is to the face value of the instruments at initial recognition as discussed in the going concern note 1.1.1. Where a change in estimation of expected future cash flows occurs on fixed rate instruments, the change in estimate calculated is recognised as part of interest income or expense. Future credit losses are not considered when calculating the effective interest rate.

1.3.4 Impairment of financial instruments

Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired.

The Company reviews the carrying amounts of its loans and advances to determine whether there is any indication that those loans and advances have become impaired using objective evidence at a loan level. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Except for the event driven future events as described in note 1.1.2, losses expected as a result of future events, no matter how likely, are not recognised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Significant accounting policies continued...

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying less than the minimum monthly amount); or
  - if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the recoverable amount.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a discount rate that reflects the portfolio of advances' original effective interest rate. The effective interest method is a method of calculating the amortised cost and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including loan origination fees and monthly service fees) through the expected life of the loan, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The carrying amount of the financial asset due to the impairment calculated is reduced through the use of an allowance account and the amount of the loss or reversal is recognised in the credit impairment charge/reversal line of the statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss in the credit impairment reversal line.

The Company estimates the recoverable amount on a portfolio basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics which indicate the borrower's ability to pay in accordance with the contractually agreed terms. For the purposes of portfolio impairment assessment, the impairment provisioning is divided into the following categories:
- Provision for IBNR (incurred but not yet reported);
- Portfolio specific impairments;
- Specific impairments; and
- Written off portfolio.

Provision for IBNR

In order to provide for the latent losses in a group of loans that have not yet been identified as specifically impaired, an impairment for incurred but not yet reported ("IBNR") losses is recognised on historical loss patterns and estimated emergence periods. Loans and receivables that are neither past due nor impaired are collectively assessed for the IBNR impairment provision. Neither past due nor impaired is defined by the Company as loans and receivables that are contractually up to date with all payments due.

Portfolio specific impairments

Loans and receivables that have missed up to 3 payments contractually are assessed collectively for portfolio specific impairment provisioning. These loans are still considered to be part of the performing loan portfolio.

Significant accounting policies continued...

Specific impairments

Loans and receivables that have missed more than 3 instalments are assessed for specific impairments. These loans form the non-performing loan portfolio.

Written off portfolio

A write off is effected against the allowance account (effectively derecognised) when the debtor is deemed to be impaired and not recoverable. Any cash subsequently recovered from the debtor is recorded as bad debt recovered and included in the credit impairment reversal / (charge) in the statement of total comprehensive income.

1.3.5 Derecognition of financial instruments

1.3.5.1 Financial assets

The Company derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when the contractual rights to the cash flows arising from the financial asset have expired or the Company transfers the financial asset and the transfer qualifies for de-recognition.

A transfer of the financial assets requires that the Company either transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

1.3.5.2 Financial liabilities

The Company derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification to the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Where the Company purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in gains or losses in the statement of total comprehensive income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Significant accounting policies continued...

1.3.6 Offsetting

Financial assets and liabilities are offset and the net amount reported only when a legally enforceable right to set off the recognised amount exists and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

1.4 Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits, and call and current accounts . Cash and cash equivalents are held with financial institutions and have a maturity of less than three months from date of acquisition. Cash and cash equivalents are measured at amortised cost.

For the purposes of the statement of cash flows, cash and cash equivalents comprise short-term deposits and cash, net of bank overdrafts.

1.5 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

1.6 Equity

Equity is the residual interest in the assets of the Company after deducting all liabilities of the Company.

All transactions relating to the acquisition and sale or issue of shares in the Company, together with their associated costs, are accounted for in equity.

1.6.1 Share capital and share premium

Shares issued by the Company are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares.

1.6.2 Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as a movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised.

1.7 Revenue

Revenue comprises of interest income and non-interest income.

Significant accounting policies continued...

1.7.1 Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable.

• Origination fees on loans granted

Origination fees on loans granted are charged upfront and capitalised into the loan. These fees are primarily based on the cost of granting the loan to the individual. These origination fees are considered an integral part of the loan agreement and are therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees against advances. The deferred portion has been released and the Company no longer accrues for origination fees.

• Monthly service fee

Monthly service fees form an integral part of the effective interest rate and are charged to the customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

1.7.2 Other income

Other income consists primarily of administration fees on loans and advances, commission charged as well as any other sundry income. Other income is recognised as the performance obligation of the related service is performed.

1.8 Taxation

1.8.1 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in profit or loss and not as part of the taxation charge. The net amount of VAT recoverable from or payable to the taxation authority is included as part of the receivables or payables in the statement of financial position.

1.8.2 Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred).

Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains tax, for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Significant accounting policies continued...

1.8.2.2 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss nor taxable income. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred taxation is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry-forward, if the Company considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1.8.2.3 Uncertain tax positions

Judgement is required in determining the provision for income taxes due to the complexity of legislation in which the Company operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Uncertain tax positions are provided for in accordance with the criteria defined within IAS 12 Income Taxes and IFRIC 23.

1.9 Contingent liabilities and commitments

1.9.1 Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Company; or
- the Company has a present obligation that arises from past events but it is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

1.9.2 Commitments

Items are classified as commitments where the Company has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

Significant accounting policies continued...

1.10 Comparative figures

Where necessary, comparative figures within notes have been reclassified to conform to changes in presentation in the current year and to enhance disclosure of certain items.

1.11 Effective accounting standards

To achieve fair presentation as envisaged in the Framework, the curator has considered and assessed the application of accounting standards that have been adopted in the industry to the financial reporting of Residual Debt Services Limited (under curatorship). Please refer to Annexure A.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Cash and cash equivalents

Rmillion	2020	2019
Call deposits [1]	243	3,814
	243	**3,814**

[1] Call deposits are with SA Banks and bore interest at rates varying from 3.05% and 4.76% NACM (2019: 6.1% and 7.5% NACM). Money on call deposits constituted amounts withdrawable on demand.

Maximum exposure to credit risk	**243**	**3,814**

3. Financial investments

Rmillion	2020	2019
Investments in core income funds*	3,544	-
	3,544	**-**

* Investments in core income funds are with SA Banks and are unitised to reflect their market value. These investments were made in the current financial year and represent the maximum exposure to credit risk.

Reconciliation of financial investments

Rmillion	2020	2019
Opening balance	-	-
Placement	3,560	-
Withdrawal	(52)	-
Income from investment	36	-
Closing balance	**3,544**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. Net advances

Rmillion	2020	2019
Gross advances	**949**	**1,420**
Gross advances after deferred administration fees	**949**	**1,420**
Impairment provisions raised	(672)	(1,022)
	277	**398**

Analysis of total gross advances by class of asset

Total	**949**	**1,420**
Loan	912	1,356
Credit card	37	64
Maximum exposure to credit risk*	**949**	**1,420**

*The Company has no undrawn retail loan commitments.

The gross value of the written off book at 30 September 2020 was R8.69 billion (30 September 2019: R9.98 billion). The decrease in the gross value of the written off book is a result of recoveries of R563 million, and write-offs relating to deaths and prescriptions of R727 million. The fair value of the written off book as at 30 September 2020 was estimated at R819 million (30 September 2019: R1 billion).

Refer to note 23 for more information on credit risk management and the credit quality of the advances book.

The impairment provisions for gross advances are classified into three categories i.e. specific impairment, portfolio specific impairment and incurred but not reported (IBNR) provisions. The specific impairment provision of R669 million (2019: R1 020 million) is in respect of the non-performing loan book. The portfolio specific impairment provision of R1 million (2019: R1 million) and the IBNR provision of R2 million (2019: R1 million) is in respect of the performing loan book.

The events, for which an amount was included in the impairment allowance, include the introduction of DebiCheck and the Credit Amendment Bill. DebiCheck will have an impact on the collection of the cashflows on advances with accounts that move primary bank accounts and change debit order dates. Should the account holder fail to electronically confirm the updated debit order, the Company could fail to collect the agreed upon instalment on the agreed upon date.

The Credit Amendment Bill will allow a client who earns less than R7 500 per month and has total unsecured debt outstanding of R50 000 to apply for debt relief through the administration channels not yet fully clarified by the bill. This will impact the Company's collection of cashflows from clients who meet these criteria. The addition to the impairment allowance from both the above impacts is R10 million (30 September 2019: R23 million); most of the impact relates to DebiCheck.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Analysis of reconciliation of impairment provision by class of asset

Rmillion	2020			2019		
	Loans	Credit Cards	Total	Loans	Credit Cards	Total
Balance at the beginning of the year	**(981)**	**(41)**	**(1,022)**	(1,403)	(48)	(1,451)
Bad debt (charge)/reversal	**200**	**7**	**207**	410	21	431
Bad debt written off	**230**	**12**	**242**	157	18	175
Revenue suspension reversal*	**(95)**	**(4)**	**(99)**	(145)	(32)	(177)
Balance of impairment provision at the end of the year	**(646)**	**(26)**	**(672)**	(981)	(41)	(1,022)

**This negative movement represents the reversal of previously suspended revenue of advances that were specifically impaired but not written off.*

IFRS 9 Financial Instruments (IFRS 9) became effective for periods beginning 1 January 2018 and was adopted into management's Framework in the prior year. IFRS 9 requires a revised approach to classification and measurement of financial assets as well as a forward-looking impairment model for impairment of financial assets. Consequential amendments to IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements require expanded disclosures.

The Curator, in applying the Framework, has elected to deviate from applying IFRS 9. It was concluded by the Curator that:

- the application of IFRS 9 would not significantly change the measurement and key disclosures of the Company's financial instruments; and
- the liquidity and fair value information disclosed in notes 25 and 26 regarding the financial instruments would be unaffected.

Additionally, in deciding on the relevance of compliance, the Curator considered the run-down nature of the Residual Book, of which the majority of the population is non-performing and the impairment provisions calculated for the advances are already equivalent to IFRS 9 lifetime expected credit losses. In the medium term, the financial assets will either be recovered through collection of the outstanding balance or be written off.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. Loans to affiliated companies

Rmillion	2020	2019 (Restated)
Cost	**961**	**961**
African Phoenix Investments Limited	-	-
Ellerine Holdings Limited ("EHL") (part of the old ABIL group in business rescue)	961	961
Accumulated impairment losses	(961)	(961)
Balance at the beginning of the year	(961)	(961)
	-	-

African Phoenix Investments Limited

In 2016, loans to affiliated companies were recovered through offset arrangements, via the exchange offer process against loans from affiliated companies, where the residual claim from affiliate companies was extinguished via a combination of issuance of new debt by "new" African Bank Limited and cash. In the prior period, a loan of R174 million was shown to be owed by African Phoenix, which was fully provided for. The loan formed part of the exchange offer, at the start of the curatorship of the Company and was consequently extinguished and should not have been shown within this note. The prior year numbers in this note have therefore been restated. This restatement only impacts the disclosure of this note and does not impact any other numbers in the annual financial statements.

Ellerine Holdings Limited ("EHL") (part of the old ABIL group in business rescue)

Since 2016, the cost of the loan amount due from EHL as well as the accumulated impairment loss, have been incorrectly disclosed as R1 186 million, respectively. The cost of the loan as at 30 September 2016 should have been disclosed as R1 060 million and the accumulated impairment loss should also have been disclosed for the same amount, as the loan was fully impaired. The difference of R126 million was due to the cost of the loan amount as well as the accumulated impairment loss, not being adequately updated with the transactions that took place during the 2016 financial year.

During the 2018 financial year, on 3 November 2017 and 18 May 2018, cash recoveries were received in respect of the EHL loan previously impaired. These recoveries received amounted to R99 million and was disclosed in the Statement of Profit or Loss in the 2018 financial statements, as Capital items and reflected in the note as Recovery of previously impaired investments. These amounts received should have reduced the cost of the loans from R1 060 million as discussed above, to R961 million with the corresponding entry reducing the accumulated losses to R961 million. This amount due from EHL remains fully impaired at the end of the current year.

The prior year numbers in this note have therefore been restated. This restatement only impacts the disclosure of this note and does not impact any other numbers in the annual financial statements.

The external auditors have issued a notification of a Reportable Irregularity to the IRBA in accordance with section 45 of the Auditing Professions Act in respect of the above misstatements contained in the prior year financial statements. The above misstatements are corrected retrospectively by restating the 2019 corresponding figures in this note disclosure, as such, the external auditors have resolved and accordingly issued a second report to the IRBA that the reportable irregularity is no longer continuing.

6. Other assets

Rmillion	2020	2019
Financial		
Receivable from African Bank Limited	1	1
Sundry receivables	2	4
	3	5

Due to the short term nature of financial receivables, the carrying amount approximates its fair value. Accounts receivables are neither past due nor impaired.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. Current and deferred tax assets

Rmillion	2020	2019
Current tax asset	-	4
Deferred tax asset	-	-
Total	**-**	**4**

7.1 Current tax asset

The Company has open tax matters with the South African Revenue Services (SARS) relating to the deductibility of impairment provisions on the Company's advances book and the application of SARS's directive regarding the treatment of doubtful debts by banks.

The Company is of the view that a tax asset cannot be recognised because of the uncertainty around the resolution of this matter as negotiations with SARS remain ongoing and have advanced to an appeal stage with the courts. This dispute is with respect to amounts already paid to SARS.

The Company continues to pursue this matter, however, the ultimate conclusion of this matter could vary as it is dependent upon the outcome of the negotiations with SARS. In the 2018 financial year, during this dispute process, SARS reduced its initial assessment issued by the penalties and interest. The receivable was recognised as it was not dependent on the outcome of the court case. Aside from legal costs payable to legal advisors, there are no payments expected to be made to SARS by the Company.

Due to the losses in the prior financial years and the expectation that these losses will persist for the near future, the Company deemed it improbable that sufficient taxable profits will be available against which the deferred tax asset will be recoverable. Therefore, the Company has not recognised a deferred tax asset because of the losses incurred during the current and previous financial years. Following assessment of the income tax return for the financial year ended 2019 the cumulative assessed loss for periods then ended amounted to R10 408 million (30 September 2018: R9 513 million). The current year tax loss was calculated at R645 million (September 2019: R895 million) for which no deferred tax asset has been raised in the current year.

Given the uncertainty for the basis on which to claim an allowance for doubtful debt and the fact that this basis will only be determined by the outcome of the engagement with SARS, the IT14 income tax returns for preceding years of assessment that had not been submitted, were submitted in the 2019 financial year. All provisional IRP6 income tax returns due have all been submitted, notifying SARS of the taxable loss position. The late submission of the IT14 income tax returns may give rise to penalties and or interest to be raised by SARS, however SARS have not raised such penalties or interest at the date of these annual financial statements.

8. Other liabilities

Rmillion	2020	2019
Financial		
Advances with credit balances	(14)	(15)
Sundry payable and accruals	(61)	(34)
	(75)	**(49)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

9. Stub instruments

Rmillion	2020	2019
Senior unsecured stub instrument	(3,356)	(3,934)
Subordinated unsecured stub instrument	(6,125)	(5,504)
	(9,481)	**(9,438)**

Stub instruments:

- are unsecured unlisted claims against the Company; and
- the senior unsecured stub instrument is subordinated in favour of SARB and shall only be repayable once all operational and run-off expenses have been paid or provided for in full, and the Indemnity Reserve has been established or released and will rank pari passu with the other unsecured unsubordinated creditors of the Company; and has no fixed maturity or interest payment date. Subordinated unsecured stub instrument is subordinated in favour of all of the above, including the senior unsecured stub instrument.

9.1 Senior unsecured stub instrument

Rmillion	2020	2019
Face value at issuance	(4,622)	(4,622)
Accumulated interest accrued	(2,034)	(1,712)
Accumulated payments	3,300	2,400
Balance at year end	**(3,356)**	**(3,934)**

Transferable and non-transferable floating rate senior unsecured stub instrument, issued on 4 April 2016. Interest is calculated and capitalised quarterly at the three month JIBAR rate plus 3.00%. In the current financial period, payments of R500 million and R400 million were made to the holders of senior unsecured stub instruments in January 2020 and July 2020 respectively, reducing the interest as well as the capital components. In the 2020 financial period, R900 million was paid (30 September 2019: R1.25 billion) in reducing the accrued interest and capital components.

Senior unsecured stub instrument interest reconciliation

Rmillion	2020	2019
Prior year closing balance	(65)	(121)
Current year interest accrued	(322)	(441)
Current year Interest paid	385	497
Balance at year end	**(2)**	**(65)**

9.2 Subordinated unsecured stub instrument

Rmillion	2020	2019
Face value at issuance	(3,621)	(3,621)
Accumulated interest accrued	(2,504)	(1,883)
Balance at year end	**(6,125)**	**(5,504)**

Transferable floating rate subordinated unsecured stub instrument, issued on 4 April 2016. Interest is calculated and capitalised quarterly at the three month JIBAR rate plus 5.00%.

Subordinated unsecured stub instrument interest reconciliation

Rmillion	2020	2019
Prior year closing balance	**(1,883)**	(1,265)
Current year interest accrued	**(621)**	(618)
Balance at year end	**(2,504)**	(1,883)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

10. Share capital

	Number of shares 2020	Rmillion 2020	Number of shares 2019	Rmillion 2019
Authorised				
Ordinary shares of R1 each	133 750 000	134	133 750 000	134
Issued				
Ordinary shares at par value of R1 each	121 251 512	121	121 251 512	121
Ordinary share premium		14,283		14,283
Total issued		**14,404**		**14,404**

During the year the Company issued no shares (2019: Nil). The Company had 12 498 488 (2019: 12 498 488) unissued ordinary shares.

11. Reserves and accumulated losses

Rmillion	2020	2019
Reserves comprise of the following:		
Accumulated losses	(19,893)	(19,670)
Balance at year end	**(19,893)**	**(19,670)**

12. Interest income

Rmillion	2020	2019
Total interest income on advances	**2**	**26**
Interest income on advances	2	17
Loan origination fees	-	7
Service fee	-	2
Other interest income	**214**	**303**
Interest received on cash reserves	213	303
Sundry interest income	1	-
Total	**216**	**329**

13. Other income

Rmillion	2020	2019
Other income *	6	17
Income from financial investment**	36	-
Total	**42**	**17**

*Other income comprises of revenue from the sale of authorised written-off loans.

**Income from financial investment is made up of both fair value gain and interest income.

14. Credit impairment reversal

Rmillion	2020	2019
Movement in impairment provisions (refer note 4)	207	431
Recoveries on advances previously written off	563	676
Total	**770**	**1,107**

15. Interest expense and similar charges

Rmillion	2020	2019
Interest on stub instruments	(943)	(1,058)
Other interest	-	(6)
Total	**(943)**	**(1,064)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

16. Operating costs

Rmillion	2020	2019
Auditors remuneration	(4)	(3)
Consultants and other professional fees*	(13)	(8)
Service level agreement fees paid to African Bank Limited	(297)	(420)
Other expenses	1	11
Total	**(313)**	**(420)**

*Curator's fees are disclosed as part of the consultants and professional fees; which are R1.7 million in the current year (30 September 2019: R1.7 million).

17. Indirect and direct taxation

Rmillion	2020	2019
Indirect charge per the statement of profit or loss (refer note 17.1)	5	(37)
Direct credit per the statement of profit or loss: SA normal taxation	-	-
Total	**5**	**(37)**

17.1 Indirect taxation

Rmillion	2020	2019
Value-added tax (VAT)	5	(37)

17.2 Tax rate reconciliation

Rmillion	2020	2019
Loss before taxation	**(223)**	**(68)**
Total taxation charge for the year as a percentage of the above	(2.2) %	54%
Indirect taxation: value-added tax	2.2%	(54)%
Effective rate of taxation	-	-
Tax assets not recognised	28%	28%
Standard rate of South African taxation	**28%**	**28%**

18. Cash generated from operations

Rmillion	2020	2019
Loss before tax	(223)	(68)
Adjusted for:		
Indirect taxation: VAT (refer note 17)	(5)	37
Movement in deferred administration fees	-	(7)
Movement in impairment of advances (refer note 4)	(207)	(431)
Collections from gross advances	329	578
Interest income on cash and cash equivalents	(213)	(303)
Income from financial investments	(36)	-
Movement in accruals*	28	(127)
Interest income accrual	(2)	(15)
Interest expense accrual	943	1,064
	614	**728**

*The movement in accruals relates to the movement in the other assets and other liabilities.

19. Cash received from collection activities

Rmillion	2020	2019
Interest income (adjusted for non-cash items)	1	4
Other income (adjusted for non-cash items)*	6	17
Total	**7**	**21**

*Other income comprises of revenue from the sale of authorised written-off loans.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

20. Cash paid to suppliers

Rmillion	2020	2019
Other operating expenses paid	(285)	(547)
Total	**(285)**	**(547)**

21. Indirect and direct taxation paid

Rmillion	2020	2019
Indirect taxation received/(paid) (refer to note 17)	5	(37)
Prior year tax refund	4	-
	9	**(37)**

22. Risk management

On 4 April 2016, the restructuring transaction was implemented, whereby African Bank Limited ("Good Bank") acquired the disposal group in exchange for the transfer of the Top Up Cash Amount and the assumption of the Company's retail deposit.

On the same day the banking licence of the Company was cancelled and the Company ceased to advance new loans and take new deposits. However, the Company continued commercial activities related to collection of the advances book and maintenance of the Company's liabilities.

The Company retained a portion of the advances book ("Residual Book"), which the Company continues to collect. A master services agreement was entered into between the Company and African Bank Limited whereby African Bank Limited was appointed to collect and administer the Residual Book and will provide a variety of services, including:

- Collection services;
- Debtors' administration services;
- Payment services;
- Financial services;
- Treasury services;
- Forensic services;
- Credit services;
- Legal services (in house general counsel);
- Compliance services;
- Information Technology services;
- Service Call Centre services;
- Anti-money laundering services; and
- Consumer Advocate's office services.

The Company relies on the risk management processes of African Bank Limited, as these have effectively been outsourced to African Bank Limited and the information below relates to African Bank Limited's internal risk management processes:

Outsourced risk management framework

The African Bank Holdings Limited ("ABHL") Risk and Capital Management Committee ("RCMC") is constituted as a Committee of the ABHL Board, in terms of its Memorandum of Incorporation ("MOI") and is answerable to the ABHL Board and reports to the ABHL Board. The prime objectives and mandates of the RCMC and its subcommittees are to assist the ABHL Board in discharging responsibilities in terms of the management of risk, capital and compliance across the ABHL group as well as its obligations under the master services agreement entered into with the Company.

The RCMC is responsible for the execution of the relevant business performance and risk management frameworks, regulatory risk management frameworks and treasury and funding risks including asset liability mismatch and interest rate risk. The RCMC is responsible for the evaluation of the adequacy and efficiency of all risk models in use in all of the businesses and reports directly to the ABHL Board. The RCMC is responsible for the approval of all risk and capital related frameworks within ABHL and, as a result, for the Company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Risk management continued...

The RCMC has delegated specific responsibilities relating to credit risk to the Model Risk Committee ("MRC") and market risk management to the Asset and Liability Committee ("ALCO"). The RCMC has approved the terms of reference of each of these subcommittees during the current financial period.

The MRC is responsible for managing credit risk. Within the context of the master services agreement, the role includes setting of credit policy and risk control. The MRC monitors these risks and reports on a quarterly basis to the RCMC. The MRC is supported by the Credit Management Structure headed by the Group Executive: Credit.

The role of the ALCO is to manage the Company's liquidity and funding position, with specific reference to the stub instruments and the indemnity reserve the Company is required to build in terms of the indemnity arrangement entered into with the SARB which formed part of the restructuring transaction ("ALCO Risks"). The prime function of the ALCO is to monitor and provide guidance to the relevant executives mandated to manage the ALCO risks associated with those functions.

The RCMC mandates the ALCO to monitor and manage the balance sheet within the context of the identified market risks.
These are defined as:
- Interest rate risk (note 24.1)
- Liquidity risk (note 25); and
- Regulatory (and Legal) risks in the ALCO context.

Risk management in response to COVID-19
While the Company's risk management structures objectives and mandates are those described above, in response to the fast paced developments of the impact of the COVID-19 pandemic to the economy, the frequency of reporting by the governance structures described above, increased in an effort to closely monitor the credit, market, and liquidity risks as well as regulatory (legal) risks (in the ALCO context) to which the Company is exposed to.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

23. Credit risk

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial and contractual obligations when due. The Company's primary focus is the collection of unsecured loans and accordingly, credit risk features as a dominant financial risk within the Company.

Credit risk management

Per the master services agreement, African Bank Limited is tasked to manage the Residual Book in relation to:
- gathering and compiling information in respect of the Residual Book;
- analysing the Residual Book and, from time to time and in relation thereto, providing reports to the Company and the relevant departments in such form as the Company may reasonably request from time to time. These reports shall include scheduled reports (i.e. monthly, quarterly and/or annual basis) and ad hoc reports and analytics; and
- with the Company's authorisation, migrating credit within the Residual Book between "Performing Loans", "Non-Performing Loans" and "Write-Offs".

The MRC is mandated by the RCMC to manage the Residual Book. The MRC is therefore responsible for approving all credit related models relating to impairments, all collection scorecards and any other models to be utilised by African Bank Limited to manage the Residual Book. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies from its oversight process.

The MRC is supported by the Credit Management Structure headed by the Group Executive: Credit and the underlying credit sub-departments. The MRC meets on a monthly basis and reports to the RCMC on a quarterly basis.

The duties and responsibilities of the MRC include:

- the establishment of an inventory of the models in use in the Company and the management thereof;
- the validation of models as it deems necessary;
- the review of the models at least annually;
- ensuring that an appropriate governance process is in place to ensure that the necessary documentation/ information is in place to facilitate the effective validation of the models;
- responsible for action to mitigate risk identified by any individual model; and
- specifically to report to the ALCO any matters or issues identified in the validation process of the ICAAP or Treasury models.

The Company's exposure to credit risk can be divided into two categories

- Residual Book; and
- Financial assets (other than the Residual Book).

Residual Book

The Company's Residual Book is made up of unsecured retail loans and credit cards which were not transferred to African Bank Limited as part of the restructure.

The nature of the Residual Book is such that it is made up of smaller sized loans across a spectrum of economic sectors and provinces. By its nature, the carrying amount at year end for unsecured loans and credit cards contained in the Residual Book represents the Company's maximum exposure to credit risk.

All of the Company's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base exposes the Company to systemic credit risk. The Company does have insurance cover to credit events arising from the death of customers; permanent and temporary disability and retrenchments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

Collection and renegotiations

The collections function outsourced to African Bank Limited relates to the effective collections of any monies due and payable by the customer. Core to the collection function is the monitoring of the payment patterns of accounts and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe as possible.

African Bank Limited uses various debit strike platforms and each allows African Bank Limited with different striking capabilities and options. African Bank Limited utilises the regulated non-authenticated early debit order system ("NAEDOS") to collect instalments from customers. Deduction mandates are obtained from customers in their loan contracts and are made from their primary bank account (where the customer's salary is deposited). Where collection is unsuccessful, arrears follow up is performed initially through the call centre.

African Bank Limited operates two types of renegotiations – namely, informal indulgences and formal renegotiations. Informal indulgences are where customers request a lower debit order amount referred to as a "promise to pay". Formal renegotiations relate to debt counselling, administration orders and court orders. From an impairment perspective, these advances are still aged through the contractual CD buckets based on their original contractual instalments and obligations.

External recovery

The Transfer Policy as defined by African Bank Limited processes, prescribes when an account will move into the Legal Collections division. Once an account has been transferred into Legal Collections, the account will be allocated to a department either in In-house or Outsourced Collections based on current internal business rules.

Credit monitoring

African Bank Limited utilises various reporting and monitoring tools to engage in and control ongoing credit risk within the credit life-cycle. These include specifically for the collection of the Residual Book, the following:

- Credit ageing reports to manage and control loan delinquency and provisioning; and
- Active payment, collection and integrity trend analysis to control and manage underlying risks and movement within the day to day operational procedures.

African Bank Limited's credit management team reviews exception reports produced by the reporting and monitoring tools on a daily, weekly and monthly basis, depending on the type of exception report produced by the credit monitoring system and acts as early warning indicators. The respective credit management team members report directly to the senior credit executive. Trends and early warning indicators identified are discussed at the montlhy impairments and fair value committee meetings as well as monthly meetings held between the curator and African Bank and where necessary preventative action is initiated, if not done so already by the senior credit executive.

Impairment

The two product portfolios within the Residual Book which carry credit impairment are the unsecured loan portfolio and the credit card portfolio. The same model methodology is applied against both portfolios to determine the level of credit impairment required.

Balances within the Residual Book are considered impaired if and only if, there is objective evidence of impairment as a result of events that occurred after the initial asset recognition (known as loss events) and these loss events have an adverse impact on the assets' estimated future cash flows that can be measured reliably. African Bank Limited, as part of its master services agreement with the Company, conservatively applies the principle of objective evidence and views "one cent-one day" late payment as objective evidence of impairment.

Credit risk continued...

CD ("Contractual Delinquency") classification is utilised for the purposes of identifying the type of impairment to be calculated within the portfolio. Contractual CD is defined as the total receivable to date minus cash received divided by the original contractual instalment. The result is then rounded up to the closest inter number (i.e. CD 0.1 would be categorised as CD1).

The categories used to identify impairment are as follows:

Contractual Delinquency	Explanation of categorisation	Time buckets	Provision type
CD 0	Performing advances that are not past due and are within the contractual term.	<30 days	Incurred but not yet reported
CD 1 – 3	Performing advances where between 1 and 3 instalments have been missed, or where instalments have been received after their contractual date of repayment.	31 – 90 days	Portfolio specific provision
> CD 3	Non-performing advances where 3 or more instalments have been missed.	91 – 182 days	Specific provision
>= CD 3 recency 6	More than 3 instalments have been missed and no payments have been received over the past 6 months.	>182 days	Fully impaired

For balances categorised as CD 0, an impairment provision classified as incurred but not reported ("IBNR") is raised. For all advances, where at least part of an instalment was missed (CD 1 – >CD 3), an impairment provision for the portfolio specific impairment ("PSI") is raised and where 3 or more instalments have been missed (>=CD3) a specific impairment ("SI") is raised. For all advances where more than 3 instalments have been missed and payments have not been received over the past 6 months, the entire advance is fully impaired and treated as if written off for accounting purposes.

The Residual Book comprises of a large number of small, homogeneous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates per category of CD. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios.

In outline, the statistical analyses are performed on a portfolio basis as follows:
The impairment charge for IBNR provision for CD 0 advances:

- The impairment calculation utilises the results of the statistical analyses referred to above to estimate the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period.
- Emergence period - also referred to as LEP (loss emergence period), represents an estimate (for accounting purposes) of the average amount of time from the point at which a loss is incurred (but not yet identified) to the point at which the loss is observed and confirmed. A 90 day emergence period is utilised.
- In considering the occurrence of a loss event over the life of a loan, it is assumed that there is a constant risk of the loss event occurring at any point in the life of the loan.

The impairment charge for PSI and SI provision for CD 1 to >CD 3 advances:

- Balances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and ratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- The expected amount outstanding when default occurs that is not subsequently recovered, or the loss given default ("LGD"), is taken into account in calculating the impairment allowance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

For fully impaired/write offs:

Advances greater than CD 3 (and where payments have not been received for 6 months) are fully impaired and netted off against the impairment allowance account for specific impairment. Such write-off is recorded as impairment through a direct reduction of carrying value of the financial asset. Therefore, gross advances reflected is net of advances that have been written off.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

All impaired loans and advances are reviewed on a monthly basis and any changes to the amount and timing of the expected future cash flows compared to previous estimates will result in a change to the charges for impairment of loans and advances in profit or loss.

Credit quality

For the purposes of analysing the credit quality of the performing book, updated credit scores were used to categorise the quality of the performing book (see table below).

Analysis of credit quality

	2020			2019		
Rmillion	**Loan**	**Credit card**	**Total**	**Loan**	**Credit card**	**Total**
Performing Book - CD 0						
Low risk	**4**	**-**	**4**	**13**	**-**	**13**
Medium risk	**-**	**-**	**-**	**2**	**-**	**2**
High risk	**-**	**-**	**-**	**1**	**-**	**1**
Total	**4**	**-**	**4**	**16**	**-**	**16**

Arrears analysis

	2020			2019		
Rmillion	**Loan**	**Credit card**	**Total**	**Loan**	**Credit card**	**Total**
Financial assets that are neither past due nor specifically impaired						
CD 0:	4	-	4	16	-	16
Past due and specifically impaired						
CD 1 to CD 3	1	1	2	5	1	6
> CD 3	907	36	943	1,335	63	1,398
Total credit exposure	**912**	**37**	**949**	**1,356**	**64**	**1,420**
Total impairments	**(646)**	**(26)**	**(672)**	**(982)**	**(40)**	**(1,022)**
Incurred but not reported (IBNR)	(2)	-	(2)	(1)	-	(1)
Portfolio specific impairment	(1)	-	(1)	(1)	-	(1)
Specific impairment	(643)	(26)	(669)	(980)	(40)	(1,020)
Deferred administration fees	-	-	-	-	-	-
Net advances	**266**	**11**	**277**	**374**	**24**	**398**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

Concentration risk

Credit concentration risk is the risk of loss to the Company arising from an excessive concentration of exposure to a single counterparty, industry, market, product, region or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

Although the Company is exposed only to unsecured loans and credit cards, the Company's credit risk portfolio is well diversified across industries and provinces, as the Company is in all the major South African industries and actively monitors exposure to each industry.

Financial assets (other than Residual Book)

All financial assets other than advances are made up of cash and cash equivalents, financial investments, loans to affiliated companies and trade receivables.

The Company maintains cash and cash equivalents, financial investments and short term investments with various financial institutions and in this regard it is the Company's policy to limit its exposure to any one financial institution. Deposits are placed only with South African financial institutions (refer to note 2).

24. Market risk

Market risk is the risk that changes in the market prices, such as interest rates and foreign exchange rates will affect the fair value and future cash flows of a financial instrument. The Company is exposed to market risk due to the open positions in interest rates, which are sensitive to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investments.

Market risk management is delegated by the Curator to the ALCO of African Bank Limited; which has the ultimate responsibility for the assets' risk profiles and the related investment decisions.

The Company has a low market risk appetite. Currency risk appetite is zero and at the end of the financial period, the Company held no exposure to currency risk.

Market risk includes the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

24.1 Interest rate risk management

Interest rate risk for the purposes of these financial statements is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has interest rate risk arising in its financial assets, from its holdings in cash and cash equivalents and financial investments, which earn interest at a variable rate.

The Company is not exposed to interest rate risk on the fixed rate loans and advances, since neither the carrying amount nor the future cash flows will fluctuate because of changes in market interest rates.

As the Company is in run off, the Company is funded via the stub instruments, which although bearing interest at a 3 month JIBAR linked rate, are only payable under the conditions described in the notes 25 and 26 of these financial statements. If the required conditions are not met, the stub instrument holders do not receive any payments.

Risk measurement and management

The ALCO views interest rate in the banking book to comprise of the following:

- re-pricing risk (mismatch risk), being the timing difference in the maturity (for fixed) and re-pricing (for floating rate) of the Company's assets and liabilities; and
- yield curve risk, which includes the changes in the shape and slope of the yield curve.

The table below summarises the exposure to interest rate risk through grouping based on the exposure to the changes in the market interest rates and is based on contractual repricing periods rather than expected payment terms:

24.2 Re- pricing profile 2020

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Non-interest sensitive items	Non-financial instruments	Total
2020					
Assets					
Cash and cash equivalents	242	-	1	-	**243**
Financial investments	3,527	-	17	-	**3,544**
Net advances	-	-	277	-	**277**
Other assets	-	-	3	-	**3**
Current tax	-	-	-	-	**-**
Total assets	**3,769**	**-**	**298**	**-**	**4,067**
Liabilities and equity					
Other liabilities	-	-	(75)	-	**(75)**
Stub instruments	(6,125)	(3,356)	-	-	**(9,481)**
Ordinary shareholder's equity	-	-	-	5,489	**5,489**
Total liabilities and equity	**(6,125)**	**(3,356)**	**(75)**	**5,489**	**(4,067)**
On balance sheet interest sensitivity	**(2,356)**	**(3,356)**	**-**	**-**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

Re- pricing profile 2019

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Non-interest sensitive items	Non-financial instruments	Total
2019					
Assets					
Cash and cash equivalents	3,791	-	23	-	**3,814**
Net advances	-	-	398	-	**398**
Other assets	-	-	5	-	**5**
Current tax	-	-	-	4	**4**
Total assets	**3,791**	**-**	**426**	**4**	**4,221**
Liabilities and equity					
Other liabilities	-	-	(49)	-	**(49)**
Stub instruments	(5,504)	(3,934)	-	-	**(9,438)**
Ordinary shareholder's equity	-	-	-	5,266	**5,266**
Total liabilities and equity	**(5,504)**	**(3,934)**	**(49)**	**5,266**	**(4,221)**
On balance sheet interest sensitivity	**(1,713)**	**(3,934)**	**-**	**-**	**-**

24.3 Sensitivity analysis based on a 100 basis point increase in interest rates

Sensitivity analysis is provided for changes in interest rates. The sensitivity analyses have been determined based on the exposure to interest rates for non-derivative financial instruments at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at statement of financial position date was outstanding for the whole year. A 100 basis point movement is used when reporting interest rate risk internally. Given the extent of the risk and the current risk mitigants, a more sophisticated (e.g. value-at-risk) analysis is not considered necessary.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Company's portfolio, a 100 basis points increase in interest rates would result in a corresponding net decrease of R58 million (2019: decrease R56 million) in net income (before tax).

Rmillion	Carrying value at end of year	Amount exposed to market risk	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax)	Equity impact (post-tax)
2020					
Financial assets/(liabilities)					
Cash and cash equivalents	243	243	JIBAR	2	2
Financial investments	3,544	3,544	JIBAR	35	35
Stub instruments	(9,481)	(9,481)	JIBAR	(95)	(95)
Net effect on the statement of profit or loss				**(58)**	**(58)**
2019					
Financial assets/(liabilities)					
Cash and cash equivalents	3,814	3,814	JIBAR	38	38
Stub instruments	(9,438)	(9,438)	JIBAR	(94)	(94)
Net effect on the statement of profit or loss				**(56)**	**(56)**

25. Liquidity risk

Liquidity risk arises when the Company is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources occurs when counterparties who provide the Company with funding withdraw or do not roll over that funding, or as a result of a general disruption in asset markets that renders normally liquid assets illiquid. Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Through its agreement with African Bank Limited, the bank's risk and capital committee, through ALCO, has set limits and benchmarks in order to mitigate liquidity risk to the appropriate levels for the Company.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the Company. It is unusual for the Company ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates.

The Company experienced a stressed liquidity event and was placed into curatorship in 2014. Post the restructure, the Company is in run-down phase and all cash flows generated by the Residual Book will be applied according to the principles defined in the Distribution Waterfall.

Cash flows generated by the Company will be applied to the Distribution Waterfall in the following manner:

- Discharge run-off expenses and day-to-day operational costs
- ▫ Costs are defined as fees due to African Bank Limited for rendering services under the Master Services Agreement;
- ▫ Any top-up payment obligations in respect of the Top-Up Cash amount;
- ▫ Curator's fees as and when they become due; and
- ▫ To adequately provide for future anticipated run-off expenses and operational costs Residual Bank will build up, maintain and replenish an operating float. The operating float will be topped-up out of collections under the Residual Book over time. The operating float at transaction date was determined to be R500 million.

- SARB Indemnity Reserve
- ▫ All cash collected over and above the operating float are required to be retained and pledged in favour of SARB, and an indemnity reserve of R3 billion needs to be established. The ring fenced amount will be established to provide for any potential indemnification claims under the African Bank Limited Indemnity. The Indemnity Reserve was fully funded during the 2017 financial year and continues to be fully funded.

- Stub Instruments
- ▫ Senior unsecured stub instrument holders: Available cash will be applied first to the payment of interest on the instrument and then applied to outstanding principal amounts, thereafter.
- ▫ Subordinated unsecured stub instrument holders: Available cash will be applied first to the payment of interest on the instrument and then applied to outstanding principal amounts.
- ▫ Senior unsecured stub holders rank alongside any other unsubordinated creditors that may arise with regard to the period prior to the Transaction. Creditors arising in the ordinary course of the Curatorship are settled as part of the operational costs noted above.

- Residual cash flow
- ▫ To the extent that there is available cash, the Company may at its absolute discretion pay over any collections that may become available to shareholders.

The following tables have been prepared to analyse the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

Liquidity risk continued...

25.1 Assets and liability maturities as at 30 September 2020 (Discounted)

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Other	Total
2020								
Assets								
Cash and cash equivalents	243	-	-	-	-	-	-	243
Financial Investments	3,544	-	-	-	-		-	3,544
Net advances	9	18	68	64	118	-	-	277
Other assets	3	-	-	-	-	-	-	3
Total assets	**3,799**	**18**	**68**	**64**	**118**	**-**	**-**	**4,067**
Liabilities and equity								
Other liabilities	(75)	-	-	-	-	-	-	(75)
Stub instruments*	-	-	(620)	(389)	(3,370)	-	(5,102)	(9,481)
Ordinary shareholder's equity	-	-	-	-	-	5,489	-	5,489
Total liabilities and equity	**(75)**	**-**	**(620)**	**(389)**	**(3,370)**	**5,489**	**(5,102)**	**(4,067)**
Net liquidity gap	**3,724**	**18**	**(552)**	**(325)**	**(3,252)**	**-**	**-**	**-**

*This value represents the carrying value of the senior and subordinated stub instruments. In line with the assumptions used in the fair value note disclosure of stub instruments per note 26.2 of no claim to the indemnity amount, the forecast payouts are disclosed accordingly. Where there is no expectation of returning the carrying value on the instrument, it is disclosed under the "Other" category.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

Assets and liability maturities as at 30 September 2019 (Discounted)

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Other	Total
2019								
Assets								
Cash and cash equivalents	3,814	-	-	-	-	-	-	3,814
Net advances	17	33	114	101	133	-	-	398
Other assets	5	-	-	-	-	-	-	5
Current tax	4	-	-	-	-	-	-	4
Total assets	**3,840**	**33**	**114**	**101**	**133**	**-**	**-**	**4,221**
Liabilities and equity								
Other liabilities	(49)	-	-	-	-	-	-	(49)
Stub instruments*	-	-	(879)	(609)	(3,537)	-	(4,413)	(9,438)
Ordinary shareholder's equity	-	-	-	-	-	5,266	-	5,266
Total liabilities and equity	**(49)**	**-**	**(879)**	**(609)**	**(3,537)**	**5,266**	**(4,413)**	**(4,221)**
Net liquidity gap	**3,791**	**33**	**(765)**	**(508)**	**(3,404)**	**-**	**-**	**-**

*This value represented the carrying value of the senior and subordinated stub instruments. In line with the assumptions used in the fair value note disclosure of stub instruments per note 26.2 of no claim to the indemnity amount, the forecast payouts are disclosed accordingly. Where there is no expectation of returning the carrying value on the instrument, it is disclosed under the "Other" category.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

Maturity profile of undiscounted liabilities

Liability maturities as at 30 September 2020 (Undiscounted)

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Other	Total
2020								
Liabilities and equity								
Other liabilities	(75)	-	-	-	-	-	-	(75)
Stub instruments*	-	-	(671)	(486)	(4,712)	-	(3,612)	(9,481)
Ordinary shareholder's equity	-	-	-	-	-	5,489	-	5,489
Total liabilities and equity	**(75)**	**-**	**(671)**	**(486)**	**(4,712)**	**5,489**	**(3,612)**	**(4,067)**

*This value represented the carrying value of the senior and subordinated stub instruments and are undiscounted excluding the "Other" column. In line with the assumptions used in the fair value note disclosure of stub instruments per note 26.2 of no claim to the indemnity amount, the forecast payouts are disclosed accordingly. Where there is no expectation of returning the carrying value on the instrument, it is disclosed under the "Other" category. The "Other" category includes the effects of discounting.

Liability maturities as at 30 September 2019 (Undiscounted)

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Other	Total
2019								
Liabilities and equity								
Other liabilities	(49)	-	-	-	-	-	-	(49)
Stub instruments*	-	-	(953)	(761)	(5,035)	-	(2,689)	(9,438)
Ordinary shareholder's equity	-	-	-	-	-	5,266	-	5,266
Total liabilities and equity	**(49)**	**-**	**(953)**	**(761)**	**(5,035)**	**5,266**	**(2,689)**	**(4,221)**

*This value represented the carrying value of the senior and subordinated stub instruments and are undiscounted excluding the "Other" column. In line with the assumptions used in the fair value note disclosure of stub instruments per note 26.2 of no claim to the indemnity amount, the forecast payouts are disclosed accordingly. Where there is no expectation of returning the carrying value on the instrument, it is disclosed under the "Other" category. The "Other" category includes the effects of discounting.

26. Assets and liabilities measured at fair value or for which fair values are disclosed

26.1 Valuation models

General

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

The Company measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other premia used in estimating discounting rates, foreign currency exchange rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive to a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over- the- counter derivatives such as swaps.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, and management judgement is required to select the most appropriate point in the range.

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes formalised policies and the approval and review process.

When third party information is used to measure fair value, the following procedures are performed in order to ensure that valuations meet the requirements of the Framework:

- verifying that the third party is approved for use in pricing the relevant type of financial instrument; and
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

Significant valuation issues are reported to the Governance Committee. The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

Recurring fair value measurements recognised in the statement of financial position

Other than the financial investment measured at fair value through profit and loss in the current year, the Company did not measure any other of its assets and liabilities on the statement of financial position at fair value at the end of the 2020 and 2019 financial years.

Valuation techniques, significant observable inputs and sensitivity of level 2 financial instruments measured at fair value

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value at which the financial investments are measured, which fair value is derived from observable inputs (level 2):

Rmillion	Valuation basis / techniques	Main assumptions
2020		
Financial assets		
Financial investments	Net asset value	Discount rates, unit prices

26.2 Assets and liabilities for which fair value is disclosed

Rmillion	Level 1	Level 2	Level 3	Total
2020				
Financial assets				
Net advances*	-	-	1,179	1,179
Total	**-**	**-**	**1,179**	**1,179**
Financial liabilities				
Stub instruments	-	-	**	-
Total	**-**	**-**	**-**	**-**
2019				
Financial assets				
Net advances*	-	-	1,654	1,654
Total	**-**	**-**	**1,654**	**1,654**
Financial liabilities				
Stub instruments	-	-	**	-
Total	**-**	**-**	**-**	**-**

*Included in the net advances fair value is the fair value of the written off book of R819 million (2019: R1.0 billion).

** Please refer below for additional disclosure on the fair value of funding liabilities.

Sensitivity- change in assumption due to COVID-19

A sensitivity of the valuation of the net advances to a change in the future cash flows resulting from the COVID-19 pandemic developments has been performed.

Given the uncertainties pertaining to COVID-19, it is not possible to accurately estimate the impact on the valuation of the net advances and therefore no adjustments have been made to the fair value of the net advances. This judgement has been made by the curator on the back of the collections of the Company having had not been impacted by COVID-19; as recent observations prior to the year end collections had remained relatively stable. Assuming that the impact results in a 10% reduction on the future cash flows collected from advances to customers, the fair value of the net advances will decrease by R118 million from R1 179 million to R1 061 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

The following item’s fair value is not disclosed as these assets and liabilities closely approximate their carrying amount due to their short term or on demand repayment terms:

- Cash and cash equivalents;
- Financial assets included in other assets; and
- Financial liabilities included in other liabilities.

Level 3 fair value disclosure

Net advances (refer note 4)

The fair value of the advances book (including the partially written off book) has been derived using a discounted cash flow technique. The Company has modelled the expected future cash flows by extrapolating the most recent observed cash flows on the advances book. The key assumptions in deriving the aforementioned expected cash flows are as follows:

- The cash flows have been reduced by the net insurance premiums the Company expects to pay across to insurance providers. The Company acts as an agent in respect of these insurance premiums;
- The nature of the advances book is such that both loan and credit card portfolios have been treated on a rundown basis, i.e. future re-advances have not been considered;
- The cash flows have been reduced by an assumed cost of collection, based on a combination of fixed and variable costs to collect the book;
- Appropriate adjustments to observed cash flows have been made where in the Company's view such cash flows are not expected to reoccur in the future;
- Overlays are held for the uncertainties relating to DebiCheck (where the cash flow impact is expected from planned implementation date of 1 October 2021) and the National Credit Amendment Bill (where the cash flow impact is only expected after a period of 6 months); and
- The fair value has been estimated by discounting the expected future cash flows at 14.0% (2019: 14.0%), being the expected rate of return that a potential acquiror would require. The discount rate is a weighted cost of capital based on an assumed long-term debt to equity ratio, consistent with the capital levels required within the banking industry.

Amortised cost and fair value are both based upon present value of future cash flow techniques, however the following significant differences exist between the impairment (amortised cost) and fair value methodologies:

- Fair value includes all expected cash flows, whereas impairments are limited to incurred loss events; and
- Amortised cost requires the future cash flows to be discounted at the advance's effective interest rate whereas the fair value methodology discounts the expected cash flows at a required rate of return.

Stub instruments (refer note 9)

As part of the restructure and exchange offer, the Company extinguished its existing funding liabilities and simultaneously recognised a new funding liability – namely the stub instruments.

In line with the Company’s accounting policy, the stub instruments were initially recognised at their face value and subsequently measured at amortised cost of the contractual cash flows.

In estimating fair value of liabilities, the Company made a number of assumptions that gave rise to a range of projected outcomes. In practice, it is possible that a combination of outcomes would materialise and that these potential outcomes may fall anywhere within the ranges projected.

The expected future cash flows have been modelled based on the various possible outcomes mentioned above. A discounted cash flow valuation technique has been applied to estimate the projected outcome under each of these outcomes.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

The projected outcomes under each of the scenarios described have been classified as Level 3.

Given that there is no active or directly observable market for the stub instruments on which a fair value, using level 1 or level 2 inputs could be derived, the fair value of the new stub instruments as at 30 September 2020 would require a level 3 input valuation technique to be performed in order to arrive at an appropriate fair value at the financial year end.

An appropriate valuation technique includes a discounted cash flow valuation using expected cash flows.

The key assumptions the Company has taken in deriving the aforementioned expected cash flows are as follows:

- The expected cash flows derived from the Residual Book for a 60 months period;
- Using the expected cash flows derived from the Residual Book, application of the Distribution Waterfall requirements are applied to the free cash flows;
- The Indemnity Reserve has been built up, and it is assumed that 100% (R3 billion) will be called upon by African Bank Limited and hence paid out over a three year period;
- As the cash of R3 billion has built up to satisfy any potential indemnity reserve claim as detailed above, it is assumed that all surplus cash in excess of the R500 million operational float is then paid to senior unsecured stub instrument holders (every 6 months). The next payment to senior stub holders is forecasted to take place again in January 2021 and so on until the end of the 60 months period mentioned above;
- The model assumes that subordinated unsecured stub instrument holders will not receive any cash as the senior unsecured stub instrument holders are not repaid in full;
- An additional judgemental cash outflow totalling R200 million has been incorporated for potential future closure and associated costs;
- The discount rate used to present value the expected future cash flows is 14.0%, which represents a modified WACC for the Company; and
- Overlays are held for the uncertainties relating to DebiCheck (where the cash flow impact is expected from planned implementation date of 1 October 2021) and the National Credit Amendment Bill (where the cash flow impact is only expected after a period of 6 months).

The below scenarios and (sensitivities as applicable) reflect the consequent values should either no claim or a claim equal to the full indemnity amount be submitted.

Scenario 1 - a claim on the indemnity reserve

Sensitivity- change in WACC

In determining the fair value of the stub instruments, if the discount rate was increased and decreased by 1%, the fair value as at 30 September 2020 would change as detailed below.

Based on the assumption that there will be a claim on the indemnity reserve.

Rmillion	Fair value - using 13.0%	Fair value - using 14.0%	Fair value - using 15.0%
2020			
Senior unsecured stub instrument	(1,612)	(1,582)	(1,553)
Subordinated unsecured stub instrument	-	-	-
2019 (Restated)*			
Senior unsecured stub instrument	(2,396)	(2,349)	(2,304)
Subordinated unsecured stub instrument	-	-	-
2019 (As previously reported)			
Senior unsecured stub instrument	(2,314)	(2,271)	(2,230)
Subordinated unsecured stub instrument	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

* In the prior period, there was a calculation error of R78 million on the fair value with the 14% WACC that resulted in a lower fair value than what should have been disclosed. This also resulted in understatement of the sensitivities for the 13% WACC by R82 million and the 15% WACC by R74 million. The errors have been corrected in the current financial statements by restating the comparatives. This restatement only impacts the disclosure of this note and does not impact any other numbers in the annual financial statements.

Scenario 2 - no claim on the indemnity reserve

Under this scenario, it is assumed that none of the indemnity reserve is claimed for the duration of the indemnity period, and thus the full R3 billion is paid to senior unsecured stub instrument holders at the end of the indemnity period, being April 2024.

In addition, the discount rate used to present value the expected future cash flows is 14.0% (which represents a modified weighted average cost of capital (WACC) for the Company). However, the R3.5 billion cash flow mentioned above is not discounted using the WACC of 14.0%, but is discounted using the 3.5 year risk free rate as at 30 September 2020 of 4.27% (2019: 4.5 year risk free rate of 6.958%) NACQ. This is considered more appropriate since the full R3 billion has been collected to date and held in low risk core income funds with major financial institutions. In addition, the timing and size of the cashflows are known with certainty thus making the use of a risk free discount rate appropriate. Refer to note 3 for more details.

Indemnity-change in WACC

The table below illustrates the stub instruments' fair values under this scenario as at 30 September 2020, together with the sensitivity if the discount rate increase and decreased by an additional 1%.

Based on the assumption that there will be no claim on the indemnity reserve.

Rmillion	Fair value - using 13.0%	Fair value - using 14.0%	Fair value - using 15.0%
2020			
Senior unsecured stub instrument	(3,394)	(3,373)	(3,353)
Subordinated unsecured stub instrument*	(1,029)	(1,021)	(1,015)
2019			
Senior unsecured stub instrument	(3,943)	(3,896)	(3,851)
Subordinated unsecured stub instrument*	(1,096)	(1,092)	(1,088)

**The subordinated unsecured stub instrument's value is derived from the expected cashflow release resulting from the R3.5 billion cashflow mentioned above, and is therefore not discounted using the WACC of 14% but the 3.5 year risk free rate as at 30 September 2020 of 4.27% (30 September 2019: 4.5 year risk free rate of 6.958%). Cashflows subsequent to release of the indemnity of R3 billion are discounted at the respective WACC.

Sensitivity- change in assumptions due to change in the final closure costs by increasing and decreasing the closure costs by R50m

The sensitivity in the changing of final closure costs is applied to where: 1. There is no claim on the indemnity reserve; and 2. The 14% WACC scenario.

Rmillion	Decrease in PV of future costs by R50 million	Base assumption - using R200 million (present value)	Increase in PV of future costs by R50 million
2020			
Senior unsecured stub instrument	(3,373)	(3,373)	(3,373)
Subordinated unsecured stub instrument	(1,052)	(1,021)	(991)
2019			
Senior unsecured stub instrument	(3,896)	(3,896)	(3,896)
Subordinated unsecured stub instrument	(1,127)	(1,092)	(1,057)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

The sensitivity in the changing of final closure costs is applied to where: 1. There is a claim on the indemnity reserve; and 2. The 14% WACC scenario.

Rmillion	Decrease in PV of future costs by R50 million	Base assumption - using R200 million (present value)	Increase in PV of future costs by R50 million
2020			
Senior unsecured stub instrument	**(1,613)**	**(1,582)**	**(1,551)**
Subordinated unsecured stub instrument	-	-	-
2019			
Senior unsecured stub instrument	**(2,384)**	**(2,349)**	**(2,314)**
Subordinated unsecured stub instrument	-	-	-

Sensitivity- change in assumptions due to COVID-19

Given the uncertainties pertaining to the COVID-19 pandemic, it is not possible to accurately estimate the impact on the valuation of the stub instruments and therefore no adjustments have been made. This judgement has been made by the Curator on the back of the collections of the Company having had not been impacted by COVID-19; as recent observations prior to the year end collections had remained relatively stable. Assuming that the impact results in a 10% reduction on the future cash flows collected from advances to customers, the fair value of the subordinated unsecured stub instrument will decrease by R122 million from R1 021 million to R899 million (using a WACC of 14%) in scenario 2 where the indemnity reserve is not claimed. In scenario 1 where the indemnity reserve is claimed in full, a 10% reduction on the future cash flows collected from advances to customers, the fair value of the senior unsecured stub instrument will decrease by R101 million from R1 582 million to R1 481 million.

27. Analysis of financial assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instrument to which they are assigned. An estimate of the fair value per class of the financial instrument is provided in note 26.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Analysis of financial assets and liabilities continued...

27.1 Analysis of financial assets

2020	Financial assets at fair value through profit and loss Rm	Loans and receivables Rm	Total Rm
Cash and cash equivalents		243	243
Financial Investment	3,544	-	3,544
Net advances		277	277
Other assets		3	3
Total assets	**3,544**	**523**	**4,067**

2019	Loans and receivables Rm	Total Rm
Cash and cash equivalents	3,814	3,814
Net advances	398	398
Other assets	5	5
Total assets	**4,217**	**4,217**

Statement of profit or loss effect of financial instruments by category

Rmillion	2020	2019
Risk adjusted income from operations - loans and receivables	**772**	**1,133**
Included above is interest income earned on specifically impaired advances	**-**	**50**

27.2 Analysis of financial liabilities

2020	Amortised cost Rm	Total Rm
Other liabilities	(75)	(75)
Stub instruments	(9,481)	(9,481)
Total liabilities	**(9,556)**	**(9,556)**

2019	Amortised cost Rm	Total Rm
Other liabilities	(49)	(49)
Stub instruments	(9,438)	(9,438)
Total liabilities	**(9,487)**	**(9,487)**

Statement of profit or loss effect of financial instruments by category

Rmillion	2020	2019
Interest expense recognised for financial liabilities at amortised cost	**(943)**	**(1,064)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. Contingent liabilities

28.1 GEMS

The Company has a contingent liability to clients, as a result of a court order issued in 2004, to pay reparations to clients who might have been prejudiced by actions of Gilt Edged Management Services Pty Limited (“GEMS”), a related party of the old African Bank Limited, between 1999 and 2002. The terms of the court order require each client to sign an acceptance and waiver form before the settlement can be made. In terms of the court order the maximum amount of potential reparations was R60.1 million, of which in excess of R40.0 million was paid by the end of September 2006. Subsequent to September 2006, a marginal amount of R0.2 million of reparations was paid to GEMS clients. The Company has a remaining contingent liability of R20 million (2019: R20 million) for these reparations; which prescription period of 30 years remains applicable.

28.2 Company Unique Finance matter

RDS and Company Unique Finance (Pty) Ltd (“CUF”) are currently engaged in an arbitration process regarding the extent of the mortgage loan and asset-based lending business that was sold to CUF in October 2004. RDS’ position is that the entire mortgage loan and asset-based lending business (including related security) was disposed of and that all the related security and properties in possession which have remained registered in RDS’ name should have been transferred into the name of CUF. RDS is therefore seeking an arbitration award to such effect.

The arbitration hearing took place in September 2020 and, on 5 October 2020, the arbitrator granted an award predominantly in favour of CUF. RDS has appealed the arbitration award (on a number of grounds) and the appeal will be heard in early December 2020.

RDS is not in possession of information in relation to the above-mentioned business as this information was also transferred to CUF. Accordingly, RDS is not in a position to quantify the financial impact of winding up the relevant business (and related security) and properties in possession, in the event that the RDS appeal against the award fails. In line with IAS 37, as the outcome of the appeal is not reasonably possible to determine at this stage and a reliable estimate cannot be made of the amount of the obligation,no provision has been raised.Should any liability arise, such would rank pari passu with the senior unsecured stub instruments.

29. Post balance sheet events

There were no matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Company annual financial statements, which significantly affects the financial position at 30 September 2020, or the results of its operations or cash flows for the year then ended.

30. Related party information

The Company’s shares are held by Weonit Projects (Pty) Ltd ("Weonit"). Weonit acquired the shares of RDS from African Phoenix Investments Limited (the new registered name for African Bank Investments Limited ("ABIL")) on 4 December 2019. As a result of the above, RDS and Ellerines Holdings Limited (in business rescue) are subsidiaries of Weonit. Since 10 August 2014 the management of the Company has vested in the curator subject to the supervision of the Prudential Authority. Refer to note 5 for disclosure of loans to affiliated companies.

Refer to note 16 for the curator fees disclosed. Weonit and its directors do not have any advances that are being collected on by the Company.

Annexure A: INTERNATIONAL FINANCIAL REPORTING STANDARDS

1 New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs (with a future effective date) that have been issued.

IFRS	Title and Details	Impact assessment	Effective date
The Conceptual Framework for Financial reporting	The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist boards in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.	The amendment is not expected to have a material impact on the annual financial statements of the Company.	This standard is effective for years commencing on or after 1 January 2020.
IFRS 17	*IFRS 17-Insurance contract* IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values - instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.	The Company currently does not hold any insurance contracts that would be subject to IFRS 17.	This standard is effective for years commencing on or after 1 January 2023.
IAS 1 and IAS 8 (amendments)	*IAS 1 and IAS 8 (Amendments) definition of material.* The amendments clarify the definition and application of material and how it should be applied by including in the definition guidance that had previously featured elsewhere in the IFRS Standards. The amendments ensure that the definition of material is consistent across all IFRS Standards.	The amendment does not to have a significant impact on the annual financial statements of the Company.	The amendments are effective 1 January 2020.
IAS 37 (amendment)	*IAS 37-Onerous contracts-costs of fulfilling a contract (amendment)* The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'direct related cost approach'; which include costs that relate directly to a contract and an allocation of costs directly related to contract activities. General and administrative costs are excluded unless they are explicitly chargeable to the counterparty to the contract.	The amendment is not expected to have a material impact on the annual financial statements of the Company.	The amendments are effective 1 January 2022.

ANNEXURE B: ACRONYMS AND ABBREVIATIONS

The following acronyms and abbreviations have been used in these financial statements.

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee of IASB
IFRS	International Financial Reporting Standards
JIBAR	Johannesburg interbank agreed rate
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
Rm / Rmillion	Millions of rand

CORPORATE INFORMATION

Company Secretary
Maliga Chetty

Residual Debt Services Limited
Incorporated in the Republic of South Africa
Registration number 1975/002526/06
NCR Registration number: NCRCP5
Residual Debt Services Limited (under curatorship) is an Authorised Financial Services and Registered Credit Provider

Registered office
59 16th Road
Midrand, 1685
South Africa

Private Bag X170
Midrand, 1685
South Africa
Tel: +27 11 256 9000

Website
www.africanbank.co.za/investor-residual-debt.html