

**Audited Annual Financial Results
for the year ended 30 September 2020**

Residual Debt Services Limited (under curatorship)



Including:
Results FY 2020
Operational update FY 2020

03 December 2020

These annual financial results are for Residual Debt Services Limited (RDS), which was placed into curatorship on 10 August 2014, is still in curatorship at this presentation date (3 December 2020) and will remain in curatorship for the foreseeable future. The old African Bank Limited was successfully restructured on 4 April 2016 by means of a transfer of certain assets and restructured liabilities into a new entity with the same name.

The RDS balance sheet therefore consists of the remaining assets, and the remaining liabilities which are known as ‘the stub instruments’.

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

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1. Financial Statements

Summary statement of financial position

R millions

Assets	Sep 20	Sep 19	Liabilities/Equity	Sep 20	Sep 19
Cash and financial instruments (1)	3 787	3 814	Other liabilities	75	49
Net advances	277	398	Stub instruments	9 481	9 438
Gross advances (2)	949	1 420	Senior unsecured	3 356	3 934
Provisions	(672)	(1 022)	Subordinated unsecured	6 125	5 504
Other assets	3	5	Total liabilities	9 556	9 487
Current tax asset	0	4	Equity	(5 489)	(5 266)
Total on balance sheet	4 067	4 221	Total on balance sheet	4 067	4 221
Fair value adjustments	902	1 256			
Net advances	83	256	Excess of fair value over net advances values		
Written off book (3)	819	1 000	Fair value of written off book		
Fair value of balance sheet	4 969	5 477			

Notes

- 1) Cash comprises the indemnity reserve of R3 billion, operating float of R500 million and surplus cash held in current accounts, money market funds and core income funds
- 2) Gross value of the written off book amounts to R8.69 billion (FY2019: R9.98 billion)
- 3) The fair value adjustment of R902 million (FY2019: R1.256 billion) includes an estimated fair value of the written off book of R819 million (FY2019: R1.0 billion). Fair value of Net Advances is R1.179 billion (FY2019: R1.654 billion)

1. Financial Statements

Condensed income statement

R millions	H1 2020	H2 2020	FY 2020	H1 2019	H2 2019	FY 2019	H1 2018	H2 2018	FY 2018
Interest income on advances (1)	1	1	2	16	10	26	38	49	87
Credit impairment reversal (2)	393	377	770	477	630	1,107	604	589	1,193
Risk adjusted income from operations	394	378	772	493	640	1,133	642	638	1,280
Interest income on cash (3)	141	109	250	153	150	303	152	156	308
Other income	4	2	6	13	4	17	6	9	15
Interest expense and similar charges	(516)	(427)	(943)	(533)	(531)	(1,064)	(530)	(529)	(1,059)
Operating costs (4)	(162)	(151)	(313)	(221)	(199)	(420)	(311)	(273)	(584)
Indirect taxation: VAT	(14)	19	5	(21)	(16)	(37)	(35)	(22)	(57)
Loss from operations	(153)	(70)	(223)	(116)	48	(68)	(76)	(21)	(97)
Capital items (5)	-	-	-	-	-	-	49	50	99
Profit/(Loss) before taxation	(153)	(70)	(223)	(116)	48	(68)	(27)	29	2
Direct taxation: current and deferred	-	-	-	-	-	-	-	2	2
Profit/(Loss) for the period	(153)	(70)	(223)	(116)	48	(68)	(27)	31	4

Notes

- 1) Lower interest income on advances as a result of decreasing book size and fewer performing loans
- 2) Credit impairment reversal from recoveries on written off and provided amounts
- 3) Significant cash balances generating interest income. Yields earned decreasing as benchmark rates lowered. Includes interest income on financial instruments core income funds
- 4) Reducing collections resulting in lower collections fees paid, as book runs down
- 5) Distributions received from Ellerine Holdings Limited during FY2018

1. Financial Statements

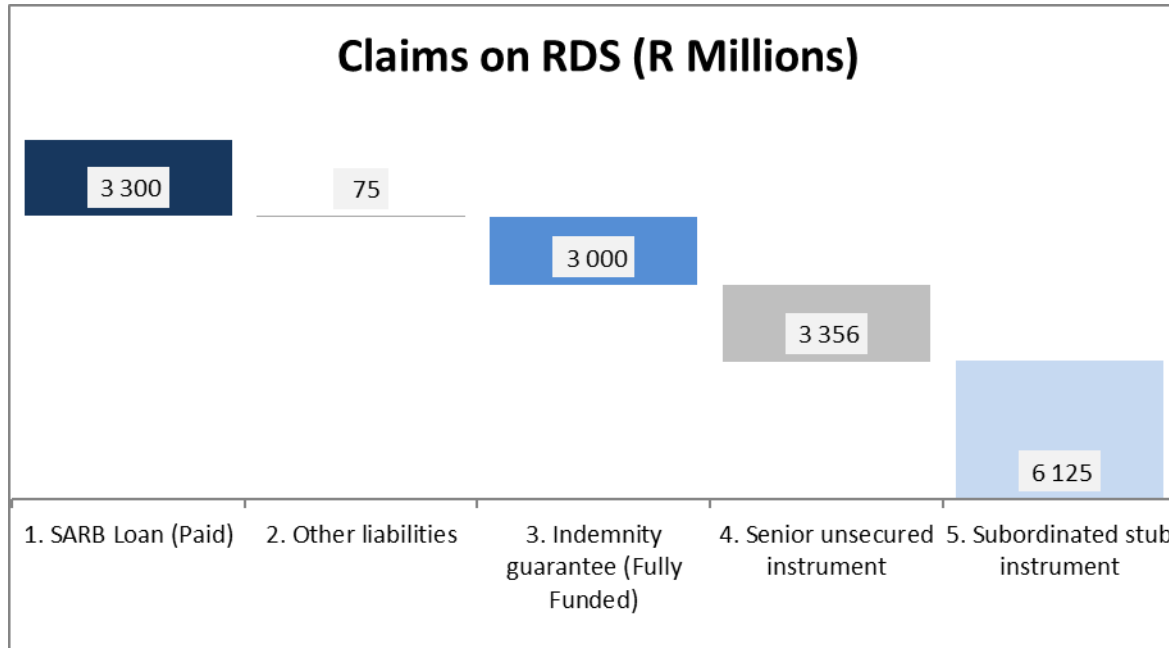
Net Advances overview

R millions

	Sep 20	Sep 19
Gross advances	949	1 420
Impairment provision	(672)	(1 022)
Net advances	277	398
Provision coverage	71%	72%

- Reduction in gross advances as a result of book paying down and write offs
- Actual collections slightly ahead of expectations also contributed to book decrease
- Overall provision coverage of 71% (R672 million/R949 million) in line with FY2019 which was 72%
- Fair value of advances: R1.179 billion (Sep 20) versus R1.654 billion (Sep 19)
- Covid-19 sensitivity (10% reduction in collections) results in the fair value decreasing from R1.179 billion to R1.061 billion

Claims waterfall



In order of decreasing seniority

1. SARB loan - R3.3 billion (fully repaid in Sep 2016)
2. Other liabilities incl. payables and accruals of R75 million at 30 September 2020
3. Indemnity guarantee - R3 billion (remains fully funded at 30 September 2020)
4. Senior unsecured stub instrument - R3.356 billion at 30 September 2020
5. Subordinated stub instrument - R6.125 billion at 30 September 2020
6. Shareholders of RDS - no value at present

1. Financial Statements

Fair value of stub instruments

R millions

Stub instruments fair value	Claim against indemnity reserve	
	Full claim (R3 billion)	No claim
Senior unsecured stub instrument	1 582	3 373
Subordinated stub instrument	Nil	1 021

- The fair value is assessed as a discounted cash flow of forecast future receipts and payments for 60 months from the advances book
- All cash flows discounted at WACC of 14% NACM, except for R3.5bn cash float and indemnity reserve in “No claim” scenario, which amounts are discounted at the 3.5 year risk free rate of 4.270% NACQ
- The “Full claim” scenario (with a senior unsecured stub instrument fair value of R1 582 million) assumes that the indemnity reserve will be called in full (R3 billion) and spread evenly over a three year period
- The “No claim” scenario (with a senior unsecured stub instrument fair value of R3 373 million, and a subordinated stub fair value of R1 021 million) assumes that the indemnity reserve will not be called at all
 - R3.2 billion is assumed to be paid to the holders of senior unsecured stub instrument at the end of indemnity period (being 4 April 2024), with an additional portion being paid to the holders of the subordinated stub instrument
- Any surplus arising after covering the indemnity reserve and operating float of R500 million is released to creditors every six months thereafter based on their ranking as detailed on the previous slide
- An amount of R3.3 billion has been paid to senior unsecured stub instrument holders to date
- Covid-19 adjustments have not been made, refer to note 26 to the Annual Financial Statements
- Further details regarding assumptions are provided in the Notes to the Annual Financial Statements

1. Financial Statements

Fair values and sensitivities overview

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

R millions	30 September 2020			30 September 2019 *		
Stub instrument	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM
Senior unsecured	1,582	1,553	1,612	2,349	2,304	2,396
Subordinated unsecured	Nil	Nil	Nil	Nil	Nil	Nil
Contractual carrying values of stub instruments						
Senior unsecured	3,356			3,934		
Subordinated unsecured	6,125			5,504		

* FY19 comparatives have been restated due to a fair value understatement error (3% of the fair value) detected in FY20

1. Financial Statements

Fair values and sensitivities overview

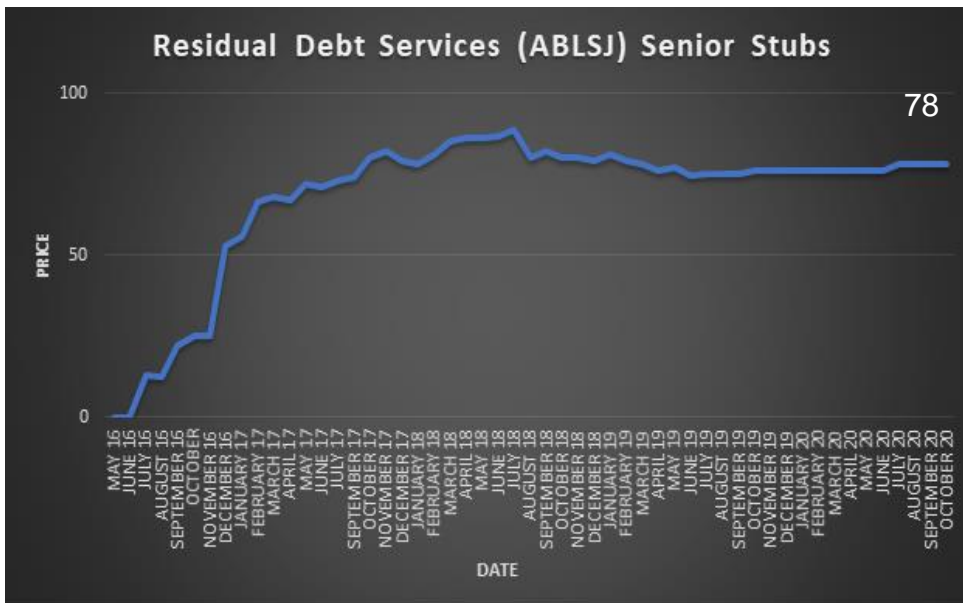
Fair value sensitivities: “No claim” against the indemnity reserve

R millions	30 September 2020			30 September 2019		
Stub instrument	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM
Senior unsecured	3,373	3,353	3,394	3,896	3,851	3,943
Subordinated unsecured	1,021	1,015	1,029	1,092	1,088	1,096
Contractual carrying values of stub instruments						
Senior unsecured	3,356			3,934		
Subordinated unsecured	6,125			5,504		

1. Financial Statements

Pricing analysis of stub instruments

Market price of RDS senior unsecured stub*



R millions	Claim on indemnity reserve	
Stub instruments fair value	Base (R3 billion)	No claim
Senior (30 September 2020)	1 582	3 373
Subordinated (30 September 2020)	Nil	1 021
Fair value/principal value (%)		
Senior	47,7%	101,7%
Subordinated	0,0%	28,2%
Principal value of stub instrument		
Senior (29 July 2020#)	3 316	3 316
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Senior (30 September 2020)	47,1%	100,5%
Subordinated (30 September 2020)	0,0%	16,7%
Carrying value of stub Instrument		
Senior (30 September 2020)	3 356	3 356
Subordinated (30 September 2020)	6 125	6 125

Original principal value on issue reduced due to recent senior stub payments consisting of part interest and part return of original capital

* Source RMB Global markets

1. Financial Statements

Fair values - COVID sensitivity

- Overlays are held for the uncertainties relating to DebiCheck (cash flow impact is expected from the planned implementation date of 1 October 2021) and the National Credit Amendment Bill (cash flow impact expected after a period of 6 months)
- COVID-19 has had a minimal impact on collections, therefore it is not possible to estimate the impact on the fair value of net advances and the stub instruments. No adjustments have been made - we however include a sensitivity assuming a 10% reduction on future collections:

R millions

Stub instruments fair value

Senior	Claim on indemnity reserve (R3 billion)
Fair value - AFS	1 582
Fair value - 10% cashflows	1 481
10% sensitivity	(101)

Subordinated	No claim on indemnity reserve
Fair value - AFS	1 021
Fair value - 10% cashflows	899
10% sensitivity	(122)

R millions

Net advances

Fair value - AFS	1 179
Fair value - 10% cashflows	1 061
10% sensitivity	(118)

1. Financial Statements

Fair values - Closure costs sensitivity

- Final closure costs increased and decreased by R50 million based on a 14% WACC:

R millions

Stub instruments fair value

Senior	Claim on indemnity reserve (R3 billion)	Change
Fair value - AFS (R200m)	1,582	
R50m reduction in costs	1,613	31
R50m increase in costs	1,551	(31)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1,021	
R50m reduction in costs	1,052	31
R50m increase in costs	991	(31)

Under the no claim on indemnity reserve scenario there is no effect on the fair value of the senior unsecured stub instruments

Other matters

- **SARB indemnity guarantee**
 - RDS provided a R3 billion indemnity to African Bank
 - In respect of assets transferred to African Bank
 - Expires on 8th anniversary of restructuring transaction (4 April 2024)
 - As at 30 September 2020 the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims
- **SARS - taxation**
 - RDS has open tax matters with SARS primarily related to deductibility of impairment provisions in prior years
 - Due to current uncertainty in this matter no deferred tax asset or liability has been raised
- **GEMS contingent liability**
 - Resultant from a 2004 court order (prescription period of 30 years)
 - Remaining contingent liability of R20 million

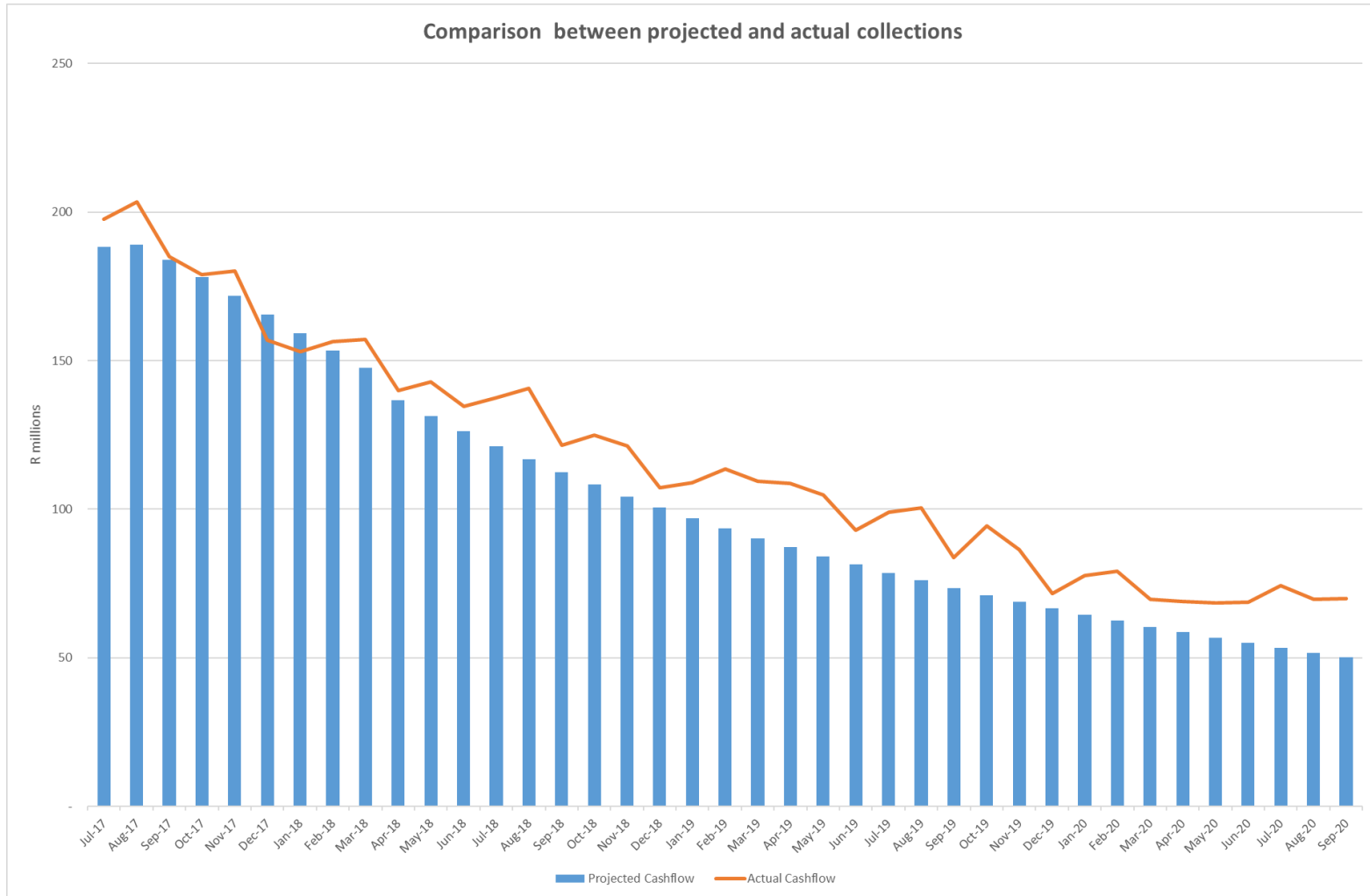
Other matters (*cont'd*)

- **Legal proceedings**

- RDS has a dispute and is in arbitration with Company Unique Finance (Pty) Ltd ("CUF"). The matter is in relation to a transaction concluded in 2003 between RDS (Old African Bank Limited) and CUF ("the parties") whereby the ring-fenced business was transferred to CUF.
- RDS' position is that the entire mortgage loan and asset-based lending business was disposed of and that all the related security which remain registered in RDS' name should have been transferred into the name of CUF.
- An arbitration hearing took place in September '20, with the arbitrator granting an award predominantly in favour of CUF. RDS has appealed the arbitration award with the appeal hearing scheduled for early December '20.
- The financial impact to RDS cannot be reliably determined at this stage and is also dependent on the outcome of the appeal arbitration process.
- To the extent that a liability arises, such would rank *pari passu* with the senior unsecured stub instrument.
- There are currently no other material ongoing legal proceedings.

2. Operational Update

Collections



Split Electronic vs Specialised	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020
Specialised	81%	84%	87%	91%	93%	96%
Electronic	19%	16%	13%	9%	7%	4%

- A successful year for RDS, with a continued focus on late stage collections as electronic collections decrease
- Collection of book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down”. Covid-19 pandemic may affect collections going forward, although not yet evident
- Indemnity fund of R3 billion and operating float of R500 million remain fully funded, with no claims against RDS under the indemnity
- Payment of between R350 million and R400 million to senior unsecured stub instrument holders anticipated in January 2021, will bring total payments to between R3.65 billion and R3.70 billion
- Expected that the interim financial statements for the 6 months ended 31 March 2021, and further operational and creditors updates will be provided in May 2021
- Applicable documentation published at www.residualdebt services.co.za

Financial media

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Financial information

Information for the year ended 30 September 2020

Published at www.residualdebt services.co.za

- Results presentation for the year ended 30 September 2020
- Annual Financial Statements for the year ended 30 September 2020
- Financial media release on the annual results for the year ended 30 September 2020

Questions?

