

**Unaudited Condensed Interim Financial Results
for the six months ended 31 March 2022**

Residual Debt Services Limited (under curatorship)



**Including:
Interim Results H1 2022
Operational update H1 2022**

2 June 2022

Contents

Unaudited Condensed Interim Financial Results for the six months ended 31 March 2022

Residual Debt Services Limited
(under curatorship)

These 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 (2 June 2022) 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 Unaudited Condensed Interim Financial Statements can be accessed at www.residualdebtservices.co.za.

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1. Unaudited Condensed Interim Financial Statements

Summary statement of financial position

Residual Debt Services Limited
(under curatorship)

R millions

Assets	Mar 22	Sep 21	Liabilities/Equity	Mar 22	Sep 21
Cash and financial instruments (1)	3,675	3,670	Other liabilities	70	64
Net advances	127	184	Stub instruments	9,565	9,477
Gross advances (2)	533	641	Senior unsecured	2,601	2,809
Impairment provisions	(406)	(457)	Subordinated unsecured	6,964	6,668
Total on balance sheet	3,802	3,854	Total liabilities	9,635	9,541
			Equity	(5,833)	(5,687)
Fair value adjustments	816	795	Total on balance sheet	3,802	3,854
Net advances	167	51	Excess of fair value over net advances values		
Written off book (3)	649	744	Fair value of written off book		
Fair value of balance sheet	4,618	4,649			

Notes

- 1) Cash comprises the indemnity reserve of R3 billion, operating float of R500 million and surplus cash held in current accounts and money market funds
- 2) Gross value of the written off book amounts to R6.64 billion (FY2021: R7.31 billion)
- 3) The fair value adjustment of R816 million (FY2021: R795 million) includes an estimated fair value of the written off book of R649 million (FY2021: R744 million). Fair value of Net Advances is R943 million (FY2021: R979 million)

1. Unaudited Condensed Interim Financial Statements

Condensed Income Statement

Residual Debt Services Limited
(under curatorship)

R millions	H1 2022	H1 2021	H2 2021	FY 2021	H1 2020	H2 2020	FY 2020
Interest income on advances (1)	-	-	-	-	1	1	2
Credit impairment reversal (2)	267	332	305	637	393	377	770
Risk adjusted income from operations	267	332	305	637	394	378	772
Interest income on cash (3)	81	79	50	129	141	73	214
Other income	0	0	26	26	4	38	42
Interest expense and similar charges	(388)	(366)	(381)	(747)	(516)	(427)	(943)
Operating costs (4)	(99)	(133)	(121)	(254)	(162)	(151)	(313)
Indirect taxation: VAT	(7)	(9)	20	11	(14)	19	5
Loss before taxation	(146)	(97)	(101)	(198)	(153)	(70)	(223)
Direct taxation: current and deferred	-	-	-	-	-	-	-
Loss for the period	(146)	(97)	(101)	(198)	(153)	(70)	(223)

Notes

- 1) No 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 increasing as benchmark rates are moving upwards
- 4) Reducing collections (as the book continues to run down) resulting in lower collections fees paid

1. Unaudited Condensed Interim Financial Statements

Net Advances Overview

Residual Debt Services Limited
(under curatorship)

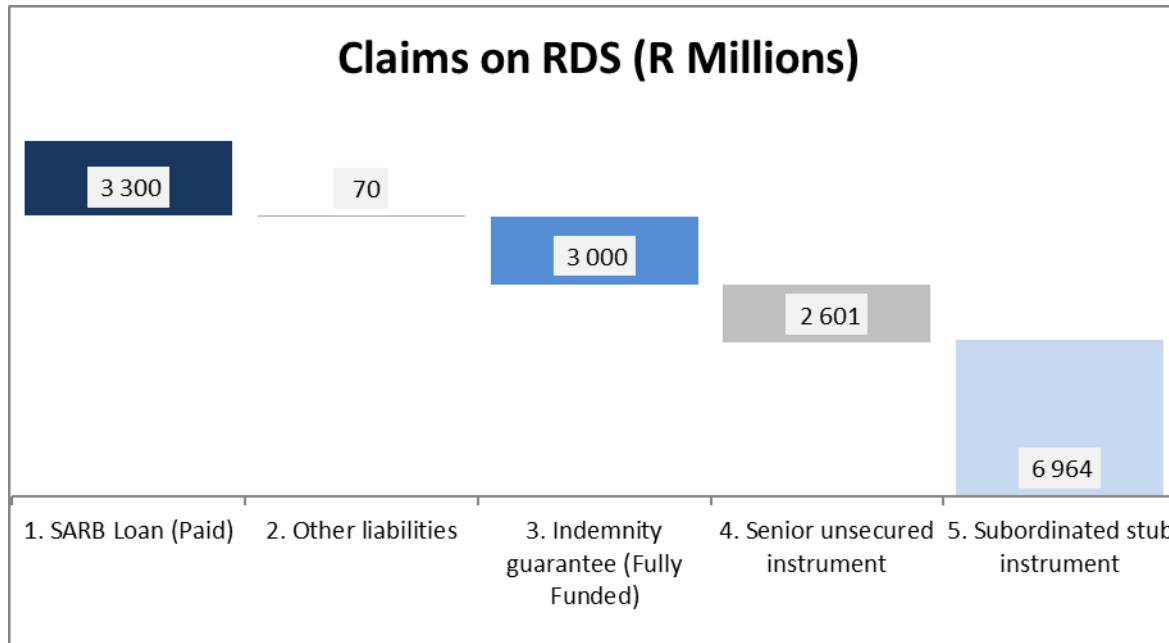
R millions

	Mar 22	Sep 21
Gross advances	533	641
Impairment provisions	(406)	(457)
Net advances	127	184
Provision coverage	76%	71%

- 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 76% for the six months ended March 2022 (R406 million/R533 million) is higher than FY2021 (which was 71%) due to the aging of the book and collections models being conservatively recalibrated
- Fair value of advances: R943 million (H1 2022) versus R979 million (FY2021)

1. Unaudited Condensed Interim Financial Statements

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 R70 million at 31 March 2022
3. Indemnity guarantee - R3 billion (fully funded since September 2017)
4. Senior unsecured stub instrument - R2.601 billion at 31 March 2022
5. Subordinated stub instrument - R6.964 billion at 31 March 2022
6. Shareholders of RDS - no value at present

1. Unaudited Condensed Interim 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	1 211	2 646
Subordinated stub instrument	Nil	1 358

- 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 the total R3.5bn cash float and indemnity reserve in the “No claim” scenario, which amounts are discounted at the 2 year risk free rate of 6.09% NACQ
- The “Full claim” scenario (with a senior unsecured stub instrument fair value of R1.211 billion) assumes that the indemnity reserve will be called in full (R3 billion) and spread evenly over a two year period
- The “No claim” scenario (with a senior unsecured stub instrument fair value of R2.646 billion, and a subordinated stub fair value of R1.358 billion) assumes that the indemnity reserve will not be called at all
 - The senior unsecured stub instrument are settled in full at the end of indemnity period (being 4 April 2024), with an additional portion of surplus cash being paid to the holders of the subordinated stub instrument

1. Unaudited Condensed Interim Financial Statements

Fair value of stub instruments (continued)

- 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 R4.35 billion has been paid to senior unsecured stub instrument holders to date
- An overlay is held for the uncertainties relating to DebiCheck as cash flows are expected to reduce following the implementation on 31 October 2021. The overlay for DebiCheck which was raised during September 2021 has been held static with an addition to the impairment allowance of R5 million
- The overlays relating to the Credit Amendment Bill has been released in March 2022 due to the uncertainty on the implementation date of the Credit Amendment Act. So far the impact has been minimal
- 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 therefore been made
- Further details regarding assumptions are provided in the Notes to the Unaudited Condensed Interim Financial Statements

1. Unaudited Condensed Interim Financial Statements

Fair values and sensitivities overview

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

R millions	31 March 2022			30 September 2021		
	Fair value @ 13.0% NACM	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
Senior unsecured	1 230	1 211	1 191	1 524	1 495	1 467
Subordinated unsecured	Nil	Nil	Nil	Nil	Nil	Nil
Contractual carrying values of stub instruments						
Senior unsecured	2 601			2 809		
Subordinated unsecured	6 964			6 668		

1. Unaudited Condensed Interim Financial Statements

Fair values and sensitivities overview (continued)

Residual Debt Services Limited
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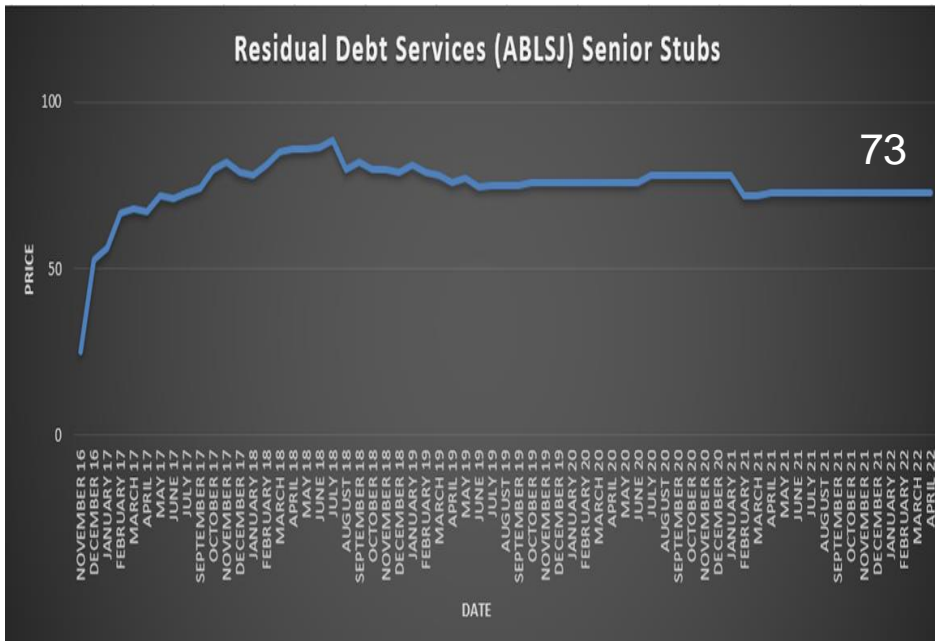
Fair value sensitivities: “No claim” against the indemnity reserve

R millions	31 March 2022			30 September 2021		
	Fair value @ 13.0% NACM	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
Senior unsecured	2 655	2 646	2 638	2 846	2 833	2 820
Subordinated unsecured	1 366	1 358	1 350	1 491	1 478	1 466
Contractual carrying values of stub instruments						
Senior unsecured	2 601			2 809		
Subordinated unsecured	6 964			6 668		

1. Unaudited Condensed Interim Financial Statements

Pricing analysis of stub instruments

Market price of RDS senior unsecured stub*



R millions	Claim on indemnity reserve	
	Base (R3 billion)	No claim
Stub instruments fair value		
Senior (31 March 2022)	1 211	2 646
Subordinated (31 March 2022)	Nil	1 358
Fair value/principal value (%)		
Senior	47,1%	103,0%
Subordinated	0,0%	37,5%
Principal value of stub instrument		
Senior (26 Jan 2022#)	2 569	2 569
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Senior (31 March 2022)	46,6%	101,7%
Subordinated (31 March 2022)	0,0%	19,5%
Carrying value of stub Instrument		
Senior (31 March 2022)	2 601	2 601
Subordinated (31 March 2022)	6 964	6 964

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. Unaudited Condensed Interim 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)	1 211	
R50m reduction in costs	1 244	33
R50m increase in costs	1 177	(34)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1 358	
R50m reduction in costs	1 392	34
R50m increase in costs	1 324	(34)

Under the no claim on indemnity reserve scenario, there is no effect on the fair value of the senior unsecured stub instrument (fair value of R2.646 billion)



- **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 31 March 2022, the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims
- RDS continues to engage with the SARB and ABL to reduce the indemnity reserve, which has in principle been agreed between the parties, subject to the necessary Board and Committee approvals. Noteholders are therefore advised to continue exercising caution when dealing in the instruments until a further announcement is made

- **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 and the matter has advanced to an appeal stage at the courts

1. Unaudited Condensed Interim Financial Statements

Other matters (continued)

- **GEMS contingent liability**
 - Resultant from a 2004 court order (prescription period of 30 years)
 - Remaining contingent liability of R20 million

- **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 2004 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

1. Unaudited Condensed Interim Financial Statements

Other matters (continued)

- **Legal proceedings (continued)**

- An arbitration hearing took place in September 2020, with the arbitrator granting an award predominantly in favour of CUF. RDS appealed the arbitration award and in December 2020 the appeal was awarded in the favour of RDS and ruled that the entirety of the mortgage loan and asset-based lending business (referred to as the ring-fenced business) was sold to CUF in October 2004
- The ring-fenced business included loan claims against borrowers which were secured by mortgage bonds, and properties taken into possession pursuant to defaults on those loans. As some of these mortgage bonds and properties in possession remain registered in RDS' name, RDS also sought an award directing that CUF take transfer, at its cost (which would include settling amounts due to local municipal authorities or third parties), of all properties and securities that formed part of the ring-fenced business that are still registered in the name of RDS

1. Unaudited Condensed Interim Financial Statements

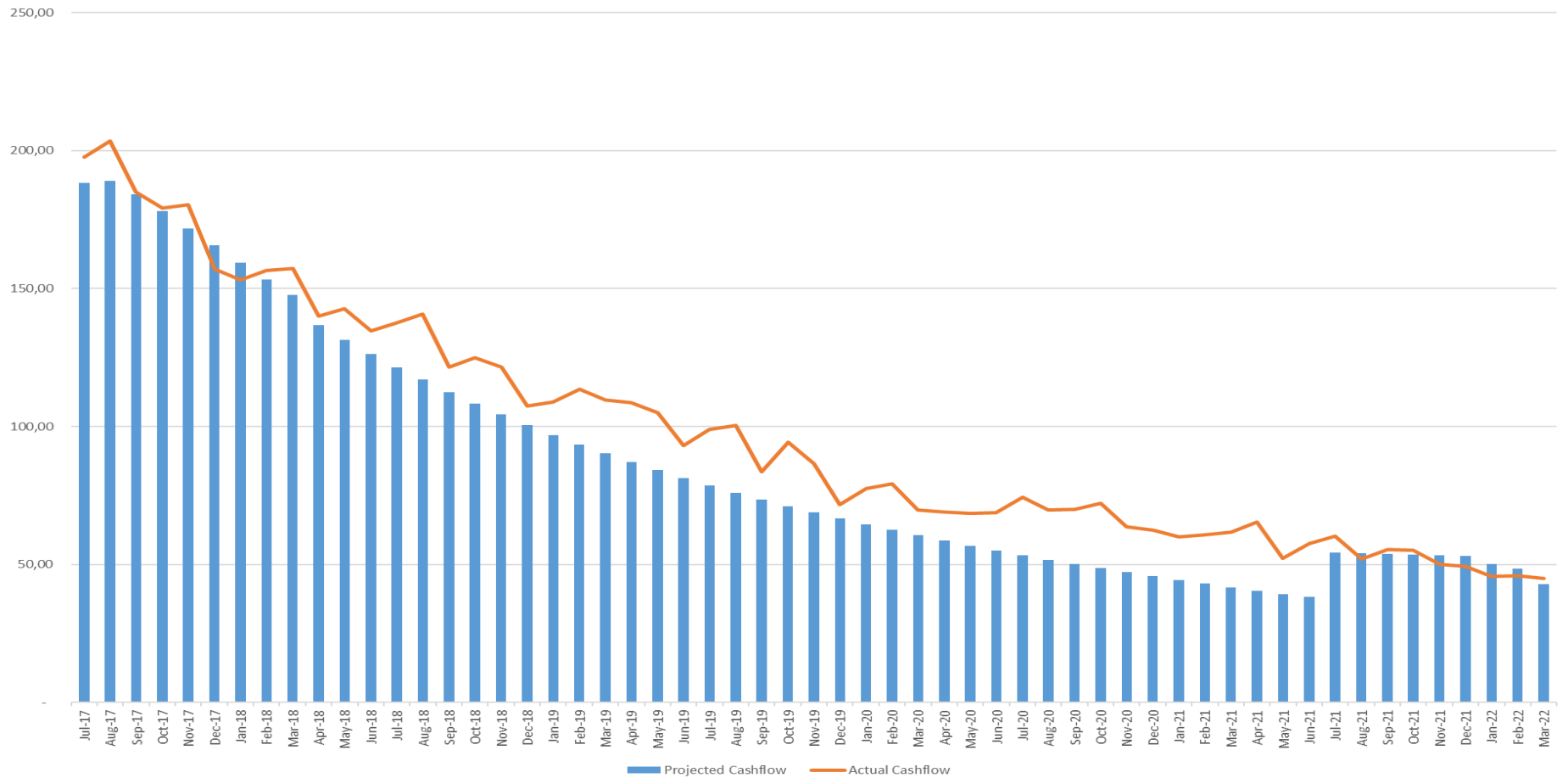
Other matters (continued)

- **Legal proceedings (continued)**

- RDS has subsequently lodged a high court application seeking an order directing the Chief Registrar of Deeds to cause the title deeds of the relevant immovable properties to be endorsed in the respective Deeds Registries to reflect that the right, title and interest of RDS in the mortgage bonds and properties possession were transferred to CUF in October 2004 in terms of section 54 of the Banks Act 94 of 1990. CUF opposed this application and the matter was heard in the Gauteng High court on 19 and 20 April 2022 and judgement reserved. The dispute between RDS and CUF is therefore ongoing.
- To the extent that a liability arises, such would rank *pari passu* with the senior unsecured stub instrument
- There are currently no other material ongoing legal proceedings

2. Operational Update

Comparison between projected and actual collections



Split Electronic vs Specialised	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022
Specialised	81%	84%	87%	91%	93%	96%	96%	97%	98%
Electronic	19%	16%	13%	9%	7%	4%	4%	3%	2%

3. Conclusion

- Another successful reporting period for RDS, with continued focus on late stage collections as electronic collections decrease
- Collection of the book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down”. Covid-19 pandemic has not affected the collections to date
- Indemnity fund of R3 billion and operating float of R500 million remain fully funded, with no claims against RDS under the indemnity. RDS remains in discussions with SARB and ABL to reduce the indemnity reserve, which has in principle been agreed between the parties, subject to the necessary Board and Committee approvals. As previously mentioned, noteholders are therefore advised to continue exercising caution when dealing in the instruments until a further announcement is made
- A payment of between R200 million and R250 million to senior unsecured stub instrument holders is anticipated to be made in July 2022, which will bring total payments to between R4.55 billion and R4.60 billion
- It is expected that the financial statements for the year ended 30 September 2022, and further operational and creditors updates will be provided in December 2022
- Applicable documentation published at www.residualdebtservices.co.za

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Financial information

Information for the interim six months ended 31 March 2022

Published at www.residualdebtservices.co.za

- Interim results presentation for the six months ended 31 March 2022
- Unaudited Condensed Interim Financial Statements for the six months ended 31 March 2022
- Financial media release on the unaudited condensed interim results for the six months ended 31 March 2022

Questions?

